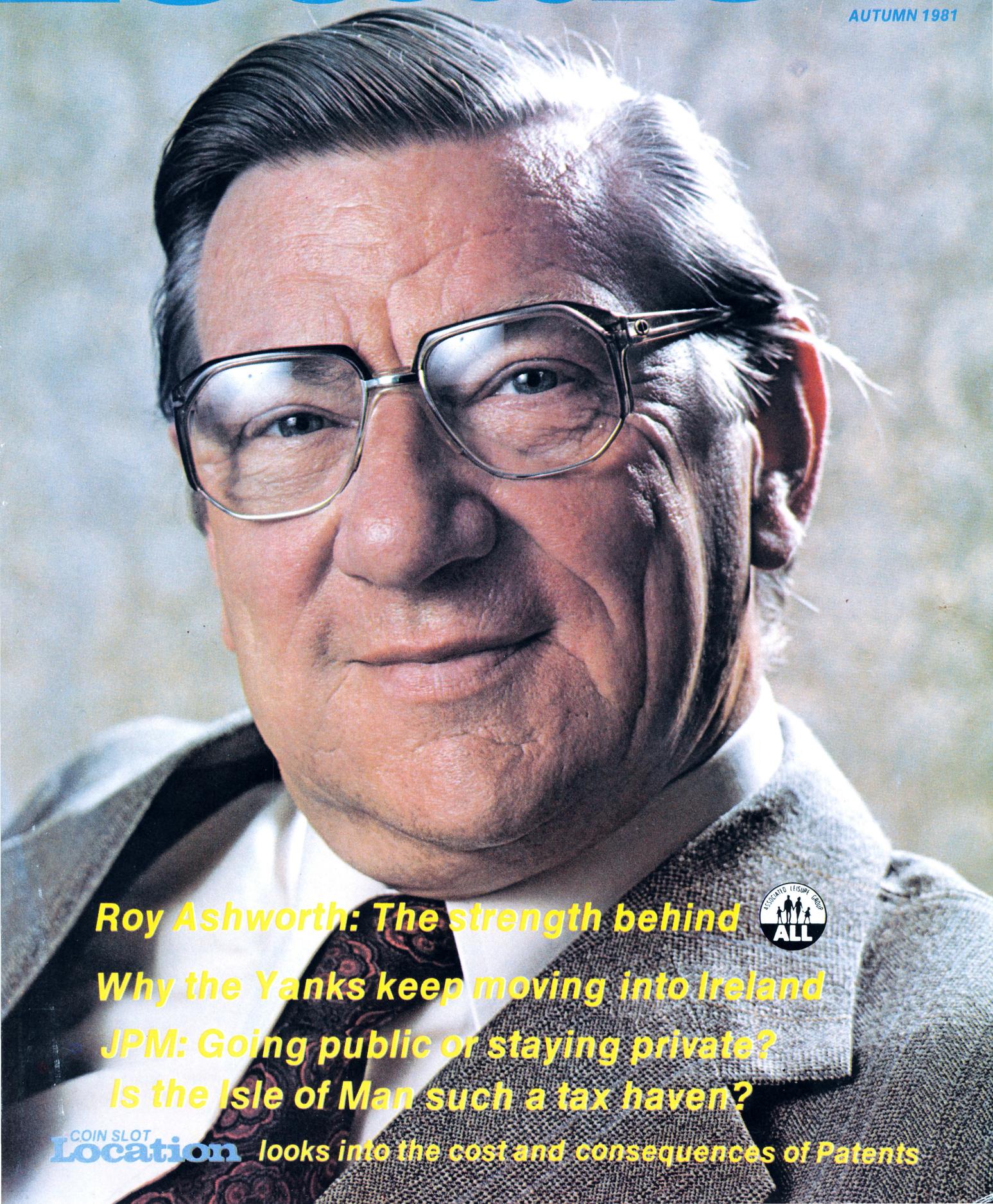


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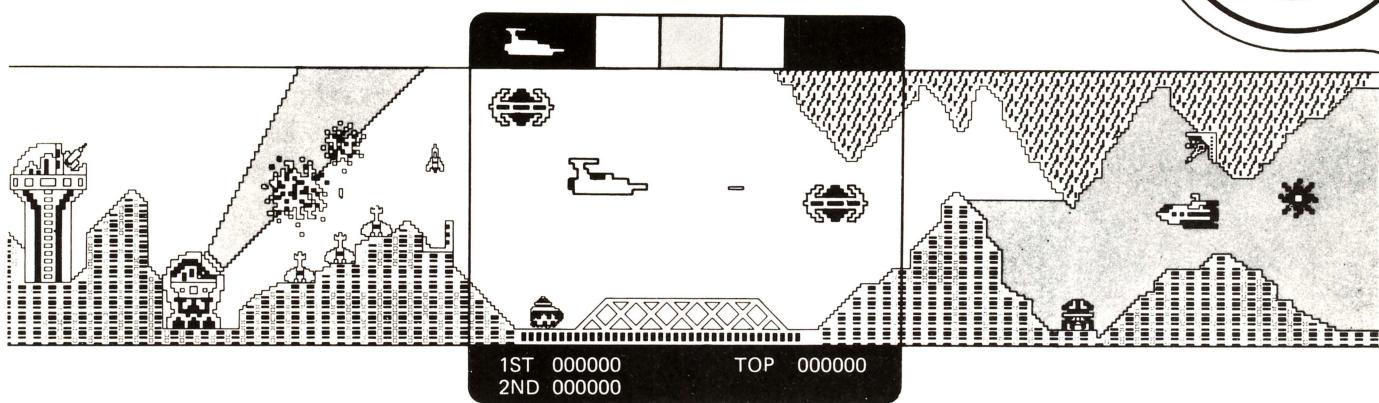
AUTUMN 1981



**Roy Ashworth: The strength behind
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Is the Isle of Man such a tax haven?**

COIN SLOT
Location looks into the cost and consequences of Patents

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COIN SLOT **Location**

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Available by subscription only, £10.20—United Kingdom; £10.60—overseas surface rate. Airmail rates: Australia £23.60; Western Europe £16.20; Canada £22; Japan £23.60; South Africa £22; United States £22.

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ISSN 0261-6866

Coin Slot Location is a quarterly magazine printed by Elliott Brothers and Yeoman Ltd., Woodend Avenue, Speke, Liverpool L24 9JL, and published by World's Fair Ltd., P.O. Box 57, Daltry Street, Oldham OL1 4BB, Lancashire, England.

International agents:
**Coin Journal Magazine
303 Shintaiyo Building,
10-13 Togano-Cho, Kita-Ku,
Osaka, Japan. Telephone: 06-315 7739**

**Walter J. Heeney,
Publishing Management Services, Inc.
Box 121055,
Nashville, Tennessee 37212
Telephone: 615-383 3285**

AUTUMN 1981

AS Group Managing Director of Associated Leisure, I have, of necessity, a close day to day working relationship with Roy Ashworth who is the executive director responsible for our main business activity, i.e. amusement machines.

Over the seven and a half years that we have worked together, I have come to develop a very healthy respect for Roy Ashworth's qualities. I am not merely referring to Roy's knowledge of every facet of the amusement machine industry comprehensive though that knowledge is. The really remarkable thing about Roy Ashworth is that his grasp of the industry, in all its aspects, is combined with commercial shrewdness and an understanding of human nature which, to say the least, is very rare indeed.

Even though he is supported by a first class team, most people would find it intollerable the day to day pressures to which Roy Ashworth is subjected. This makes Roy's total commitment to Associated Leisure a source of great inspiration to his main board colleagues and is one reason why we hold him in such a high regard.

Partly, perhaps, because he himself shuns publicity, I have always thought that Roy's outstanding contribution to Associated Leisure and to the amusement machine industry over many, many years has never been fully appreciated by the outside world. I am, therefore, delighted that he has accepted your invitation to be the subject of a profile of Coin Slot Location

NAT SOLOMON
*Group Managing Director,
Associated Leisure.*

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and

The archaeology of the fruit machine by NICHOLAS COSTA



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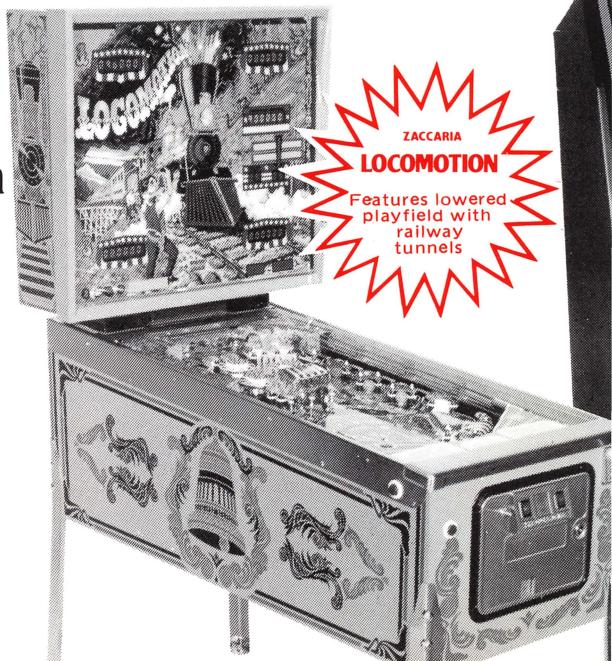
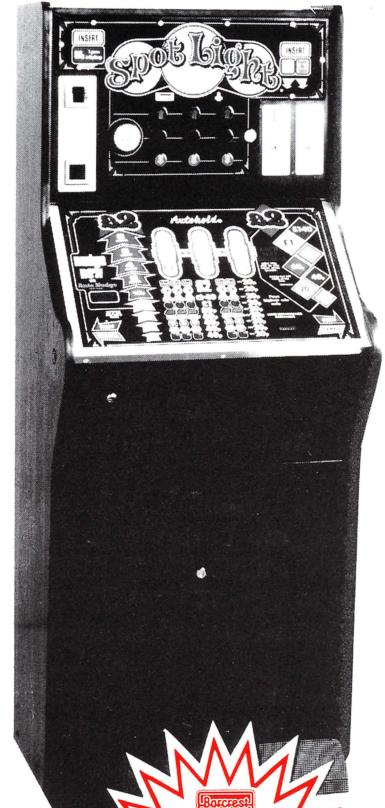
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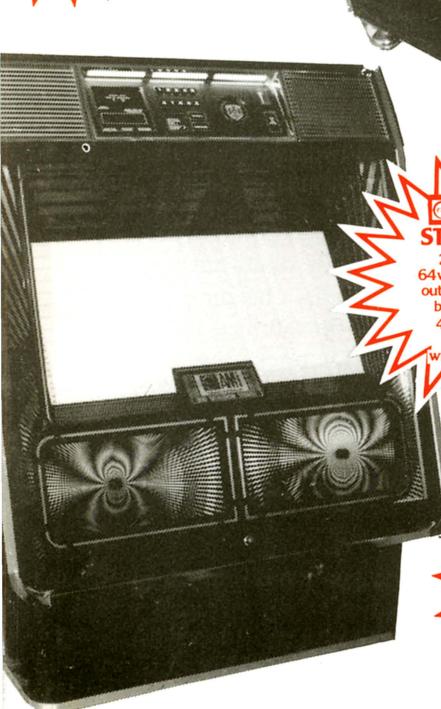
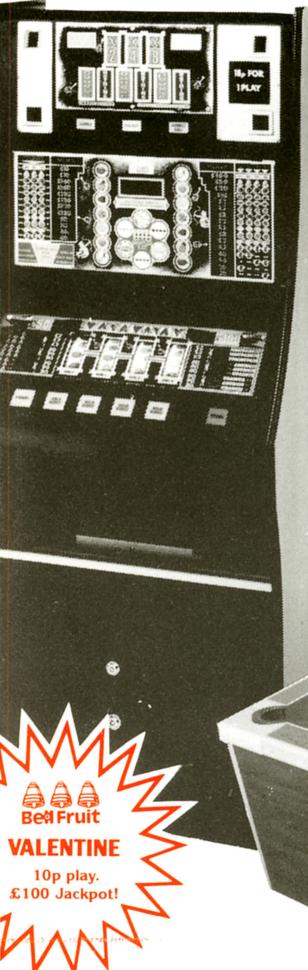


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...owners some of which are featured on this page.

THE British coin machine industry, like that of any other country, has its unique characteristics. It is vital, progressive, occasionally precocious, always vibrant and devilishly introvert.

Many may compare it to the classic Latin summary of a woman: *Varium et mutabile semper feminae* (Woman is ever a changeable and capricious thing). Yet that is also true of the industry the whole world over.

What makes the British trade rather special is, in short, breweries. The unique situation which has evolved means that the thousands of British pubs are, mainly, owned by a small number of brewery groups. The breweries control the sites and, therefore, largely control the coin machine industry.

Brewery systems

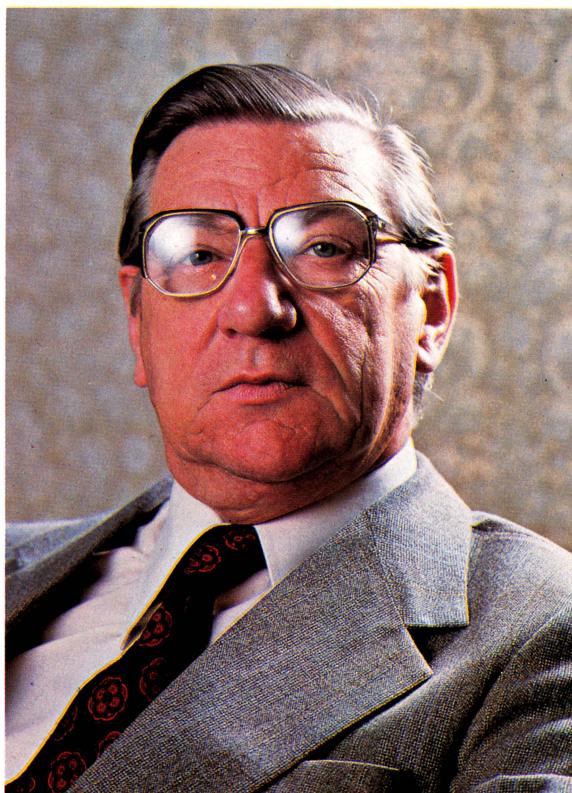
This immense power is doubly extensive through the laws of the land which permit gaming machines in public houses. Britain, therefore, and with the exception of West Germany, enjoys a situation where the type of equipment permitted in public houses is much broader than elsewhere. It means a greater number of coin-operated units per establishment and strengthens still further the powers of the breweries.

The brewery systems of control results in infinitely fewer operators and, logically, much larger operating companies. Whereas in most other countries a large operator may have 2,000 sites, in the United Kingdom there is nothing extraordinary in an operator having 10,000 sites.

And this is where the analogy with the fairer and gentler sex has no place. The growth of larger companies has brought in its train greater professionalism and fiercer competition. The British operating industry is no place for the faint-hearted.

Inevitably, these giant companies have their strong characters. The point where the proverbial buck stops is the point at which the power tends to lie.

Changeable



ROY ASHWORTH

In the ranks of the manufacturers, so dependent upon the benevolent eye of the coin operating moguls, therefore, these individuals become unwittingly and usually unwillingly the subject of mystique. The man on whose desk the buck stops in a major operating company is the man who wields the immense power to make or break a manufacturer.

That is undoubtedly an accurate assessment of the way in which the head of a major operating company is viewed by the nation's manufacturers. If he likes the machine then the orders for it are likely to run into thousands from the one company.

It may be an accurate assessment of the awe in

and capricious, but such a unique industry

COIN SLOT
Location interviews Associated Leisure's Roy Ashworth, who takes a conscientious look at his company's success and the UK industry in general.

which the decision-makers are held by the manufacturing sector. But is it, in fact, a fair assessment?

To look for the answer we went to the very top. The largest operating company in the United Kingdom is Associated Leisure, with 28,000 pieces of equipment and a huge operation split into a series of geographically-positioned subsidiary companies.

In the company's annual report for the year ended March 15, the Group showed a turnover of £44,252,000, of which the manufacture, distribution and rental of amusement machines contributed £34,967,000 or 79 per cent. Trading profits (i.e. profits before interest) totalled £5,539,000 of which the same sector provided £4,586,000 or 83 per cent.

By far the largest proportion of these figures came from the hiring companies, that spider's web of operating companies stretching the length and breadth of the Kingdom and including companies formerly called Burton Coin, Holmark Coin, Phonographic Hire companies in London, Bedford, North Wales, Scotland, the South East, South West and West.

Each has its own board of directors and is independently responsible for its performance.

Responsible to whom? It goes back to Burton-on-Trent, logically, for the Midlands town is the home of many of the nation's leading brewery concerns and it is there that Associated Leisure's Amusement Machine Division has its headquarters at Wetmore Road.

Make and break

The man at the head of the Amusement Machine Division, therefore, is our subject in an analysis of the all-powerful and that man is Roy Ashworth who was at once at pains to lay the ghost of the long-held assumption by the rest of the trade that the Managing Director of Associated Leisure (Amusement Machines) Ltd. is the man who can make and break manufacturers.

The relevant section of the conversation with Roy Ashworth ran as follows:

Location: You are, of course, aware of your reputation in the industry?

Ashworth: "No. I'm very unsure in that respect".

Location: As we go around and talk to manufacturers it is clear that they see Roy Ashworth as the strong man behind Associated Leisure, which is probably grossly unfair to people like Nat Solomon and the other excellent people



you have on your main board. You're regarded as such because you run the largest and most profitable single sector of Associated Leisure and your seal of approval on a machine is its success or downfall and very often, therefore, the success or downfall of the manufacturer.

Ashworth: "You have to be hard in this business. But, you know, we are very democratic. I may be regarded as the hard man at Associated Leisure and I have to be hard in a business sense because somebody has to say no and somebody has to say yes. Someone has also got to know when a thing is done right and when it is wrong. At the end of the day I have to answer to the shareholders, just as Nat Solomon the Managing Director of the Group has to answer to the shareholders, so we are both very conscious of those responsibilities.

Democratic manner

"I try to exercise those responsibilities properly and fairly and in a democratic manner. This year we are spending around £12 million on equipment for our own operation and that is about 8,500 machines.

"First, how do we buy the machines? We have Roy Wasley who is divisional technical director who scans the market for anything that is promising and he brings samples in here before testing them for weeks on site. We evaluate them technically and then assess the overall performance.

"There is a similar set-up for video games. David Wilcox scours the world markets for new games and they go through the same routine.

"At the end of the line there is a monthly divisional management committee consisting of all of the managing directors of our operating companies. We meet here at Wetmore Road under my chairmanship and with Nat Solomon always in attendance. That committee assesses the results of the previous month's performance by each of the companies. The committee has a sub committee consisting of myself as Chairman, Don Smith Managing Director of Burton Coin and Roger Mynett Managing Director of Phonographic Hire (London), and we look at the machines which have been tested, using a highly detailed breakdown of performance and callback. Then we make a decision to buy on the basis of those results.

"The point I am making is that it is a very democratic decision. I have to carry the responsibility, reporting to the main board in London and therefore, ultimately to the shareholders. That in itself is an enormous burden for any one person to take, without, as is apparently commonly believed, carrying the burden of responsibility for buying decisions taken in isolation.

"It is very much a team decision, made on the basis of information meticulously and expertly gathered by a number of individuals".

The myths thus dispelled, Roy Ashworth went on to outline some of the day-to-day operating problems that arise through trade conditions and from having to deal with a small, close-knit and insular industry.

"Take last year as an example. We were occasionally having to place orders because there was no alternative. In 1980 it was all JPM. They had the best machines but couldn't possibly supply the quantities. Variety is a necessity, but when one company dominates the market it means that we are hard-pressed to find that variety. With market polarisation by one company you are left with the situation that machine choice is largely decided for you. The exercise of choice becomes a luxury we cannot afford.

"We have to buy the best earner in the maximum quantities available or digestible and then decide which is the best to run in conjunction with it.

Personalities

"Then you have the problem of personalities. There are a great many people in the industry with strong personalities, people who *are* the industry, its backbone. And they find it hard to accept that we cannot give a large order for their machines even though they may be personally convinced that it is the best machine currently on the market.

"We cannot work that way because we are in too competitive an industry and because we have a very heavy responsibility to our customers and shareholders. We must buy strictly in accordance with the assessment made by the top-level management who comprise our committee and that is based on the figures turned out by site-testing.

"This is very important to me. It is a Group decision, a democratic decision. I don't buy machines but perhaps because I am the

'Our business grew with good profit records and credibility . . .'

mouthpiece for the committee, the trade believes that I do.”

An ill-conceived reputation for hardness? It would appear that the misjudgement is only half so. Roy Ashworth is ready to admit to having to be tough in a tough business, but insists that the decisions taken are not his alone, a point that in all fairness should be made clear.

It was indeed a tough school in which Associated Leisure's machine supremo grew up. He and his brother entered the trade in 1955 at which time they ran a number of businesses, the most insignificant of which was a little restaurant on a railway station. A friend had some juke boxes and they agreed to place one of them in the station cafe at Tamworth. This was quickly followed by Allwin machines on ha'penny play.

“The juke box was a Ditchburn Music Maker with ten-inch records. He did the collections on Saturday mornings and I well remember the incredible piles of pennies, ha'pennies and threepenny bits. Without delay we bought the machines and my brother, Peter, and I really began to become interested in coin machines.

“We travelled the length of the A5 Watling Street, calling in on the transport cafes installing juke boxes and ice hockey games which we bought from Ruffler and Walker. Fred Walker had premises on St. John's Hill in those days and, with Bill and Maisie, dealt in a small way. We also bought from that fabulous character ‘Ginger’ Horowicz of Chicago Coin.

“We never went near fruit machines until the 1960 Gaming Act made them legal in pubs. Right from the very beginning we believed that the only way to do business was in a businesslike fashion, an attitude that I have maintained throughout my career with Associated Leisure.

“All earnings were reinvested in new equipment

and in the end we capitalised because our business grew as a result with good profit records and credibility. It all came from that basic policy”.

Burton Coin was the result of the build-up in the business but it was not the only business that Roy was involved with. He had a motor trading company, showroom, a taxi company and other interests. He was a third partner in the transport company with the Cooper brothers, Brian and Bob, but the motor business was not too happy at the time, with petrol rationing, so Roy transferred his capital from transport to coin machines starting up Electro Machines Ltd. Burton Coin was the evolution of Electro Machines when the outfit moved to Burton-on-Trent.

Relationship

“Each time we obtained a brewery contract we set up a separate company to run it, because financing in our line of business was a problem in those days. A close working relationship with Cyril Shack at Phonographic gradually emanated from the growth of our business and as we started these separate companies, so Phonographic would take a half-interest or quarter-interest. Eventually, in 1967, we sold the whole thing to Phonographic.”

When we asked why he decided to sell out to Phonographic—after all, it must have been evident to Roy at the time that the trade would expand rapidly with the growth of the public house business—he revealed the kind of acute awareness that he has for patterns of development within the industry.

“We were vulnerable in certain ways, because although we had half-a-dozen or more brewery contracts and some free trade as well, it was nevertheless a very narrowly-based business in terms of products. You must also remember that





at the time breweries were taking one-another over on a grand scale. As each took over the other so our customer-base became narrower. There was a degree of risk in it, and there were also death duty problems to face. If you've four partners in a business and one of them happened to die, there would be serious duty problems. The answer was to capitalise on our investment and we did just that".

Shortly after the sale of Burton Coin Roy Ashworth joined the main board of Phonographic—he is now, incidentally, the longest-serving member of the current board—and immediately walked into a crisis.

Confusion

The 1968 Gaming Act threw the trade into confusion over which elements of amusement machines were actually legal. Associated Leisure suffered badly over the short-term, with net profits at one stage slumping to around £1,000 and the share price on the stock market sinking to 8p.

"We had sold out for a consideration that included a substantial shareholding in Phonographic, shares that cost 14 shillings or 70p in today's money. When the slump in the trade came we could see our investment disappearing over the horizon. That is when I joined the board

and took over the northern region of the operating company. After Cyril Shack left the company I took over the whole of the hiring division".

From the six companies in the hiring division in those days, the business of Phonographic, which became Associated Leisure, has expanded into a coin machine division, embracing manufacturing, sales and arcades as well as single-site operating, bringing all of the machine interests of the group under Roy's control as Chairman of the Amusement Machine Division.

"In short, then, I sold out and stayed with the business. People often sell out, leave and then go abroad to save tax. I would never go abroad just for money. For me there is no place in the world like Britain".

The slump that came to the coin machine business in 1969-70 following the 1968 Act, boiled down to the removal of the progressive jackpot as far as Roy is concerned. "It was that long, drawn-out law case that eventually went to the House of Lords and outlawed progressives that caused all the trouble. While that was going on no-one knew whether their machines were legal. We had to call in all our machines and put them back to a five-shilling prize.

"When you have machines with the capability of paying out 50 shillings having to be reduced to five shillings, it is bound to have an effect on your profitability. The problems of Associated Leisure



in those days were not created by bad management by my predecessors. The upturn in the company's fortunes after that time was not the result of good management on my part. My arrival on the board was fortuitous but not significant in that respect". The modesty which is very much the trademark of Roy Ashworth is heightened by a readiness to praise his peers. "I had the greatest respect for Cyril Shack as a businessman. I don't think he has many equals. I was very close to Cyril and dealt with him for many years. I don't hear from him now, but I have nothing but praise and admiration for his ability.

"There was no-one who did as much to help found this industry. It would not be unreasonable to say that he is one of the British trade's founding fathers".

Roy admits to learning much from Cyril Shack and undoubtedly put it to good use, for whatever his modesty will dictate, it was hardly coincidental that from the low of the early 70s, Associated Leisure performed a remarkable financial about-face in the following ten years. The trading profits for the past five years demonstrates the climb-back to high-level profitability quite clearly: 1977 £2,251,000; 1978 £3,533,000; 1979 £5,226,000; 1980 £5,516,000; 1981 £5,539,000.

The reason for this, Roy summarises as: "While we believe in the importance of being entrepreneurial, we do not believe in the short-term

exploitation of customers, or in taking excessive risks. We reject the 'quick buck' philosophy. We take a long-term, as well as a short-term view of the future. We attach importance to stability in the amusement machine industry, hence our relatively cautious approach to the phenomenon of the recent video boom".

He adds: "It comes back to serious business intent; it comes back to hard work; it comes back to dedication; it comes back to years and years of business experience and good judgement and so on. It comes back to a team of very good people, properly motivated, and perseverance. It is too easy to cut corners and take the gravy and run. To build up a company as large as Associated Leisure with its industry and city credibility, it takes dedication and bloody hard work".

Meticulous investigation

The teamwork is one thing, but the motivation is another. This is perhaps the role in which Roy Ashworth is happiest to see himself. "My first rule is that Associated Leisure must always be whiter than white. As far as I am concerned there are no areas of grey in this company whatsoever and I would not permit anything in that sector of the Group under my control that will not stand the most meticulous investigation. That is the first

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rule and one that should apply equally to the entire trade.

"I also have the belief that if something is worthwhile it does not come easily. You have to work at it but if you do the right thing, then in the long term you will succeed. If it is easy then in my experience it's usually not right and won't endure".

The result is the largest coin machine operation in Great Britain, and probably in Europe.

In terms of more specific operating policies, Roy is keen to emphasise that the company tries hard to spread its buying power. Obviously aware of the size of that power and the effect that it may have on smaller manufacturers, he points out that single-mindedness in terms of manufacturers used is detrimental to his company and the industry.

Market conditions

"Obviously, if one company is continually highly successful then in order to maximise our own profitability we have to go along with it. However, we are aware of the importance to maintain choice. We buy machines from Marian, from JPM, from Barcrest, from Bell-Fruit. We have Ace machines, Maygay machines, Dransfield machines, Gowerpoint machines on our inventory. We try, market conditions permitting, to buy machines in a responsible way, to schedule as evenly as we can across the year. We don't suddenly hold back from buying and then place mighty orders".

An awareness of an obligation to manufacturers is one thing. But what about the company's attitude to its competitors? Undercutting on rents is a perennial problem in the industry, constantly down-grading the effectiveness of the operating industry. Is there a solution?

"I don't know the answer to that, but our own policy is to obey the laws of commerce, to market our products as vigorously as we can and to sell our service. We cost our product on the basis of a fair return on capital having regard to the trade and the investment, not on what the market will stand. Our rents are based on costs—that is the commercial and the professional way to do it".

He sees the undercutting on rents as an obsession with numbers of sites rather than with what those sites will economically yield. "There is always a danger of becoming growth-oriented. If growth in

itself amounted to profit that would be one thing. But it is not necessarily the case. One of my major functions is to ensure that our people are profit-oriented and not growth-oriented to the exclusion of profitability.

"People talk about 'site poaching'. I've heard of egg poaching and pheasant poaching, but there is no such thing as site poaching. If you are selling a service you have to go out and market that service".

It is often said by the trade that the coin machine industry is its own worst enemy. Operators are more intent on what the competitor down the road is getting for his equipment than making sure that they are receiving economic rents themselves. This is exacerbated by the pressure being brought to bear by customers to keep rents down in the face of their own profitability problems. Yet the brewery sector in particular has to make sure that their supplier base survives. It could easily slip out of gear and the trade spiral downwards. Roy Ashworth sees the breweries as the panacea for this illness. "There is a realisation within the brewery industry that it is necessary, in order to get the capital investment, that they take a responsible view. There is too much money in coin machines to risk not fostering the investment. The flight away from video investment that we have seen of late is demonstrating that fact quite clearly as it has done in the past with juke boxes.

Capital employed

"They realise that an adequate return must be achievable for the capital employed. If we cannot get the return on capital then we have no alternative but to run away from the product and cut our costs. That is what has started to happen on video games.

"As for the undercutting, I think these things have a tendency to rationalise themselves in the end. There are no real short cuts by working for nothing".

For all that the trade in video games has contracted, he firmly believes that the video game is here to stay, that the market is currently undergoing its growing pains. It will contract and level out.

"It will rationalise because we reached a point of over-supply. I am surprised that the casualties have not occurred earlier.

"Associated Leisure has been in video games



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consistently since the beginning of television games. We didn't just come back into it when Space Invaders came in, we continued to run video in the interim with games like Breakout. Space Invaders heralded a new era for video and we quickly adopted a very conservative depreciation policy with the result that we never made a satisfactory return out of video.

Profit pro rata

"If you look at the accounts of Associated Leisure last year, you will see that we increased our investment very substantially but we did not increase our profit pro rata. That is because the video investment did not give us the profits because we just did not feel justified in writing off over a longer period than we have been, which was 18 months. In recent times we have been writing them off at 40 per cent for the first six months, 35 per cent in the next six and then 25 per cent. This gives you a depreciation charge of around £15 a week before you start on a new machine. There is no video profit boom on that basis".

Associated Leisure therefore regards the video game as somewhat ancillary, a service to the sites? "Yes. The backbone of this operating industry and of Associated Leisure remains the fruit machine".

He is mindful of the technological advances that have been a major spin-off from the development of the video game, however. The evolution of the video fruit machine was inevitable and there is

'The trade will prosper because of increased leisure time . . . '

nothing remarkable in Roy Ashworth's forecast that the next ATE will be dominated by them.

"In fact I expected to see more video fruit machines at the last show than there actually were".

Will the video fruit machine become a dominant force in the AWP market?

"I wouldn't go so far as to say that, because we have not seen any evidence yet that video AWPs are capable of taking any more money than the traditional machine. I think that by common consent, the reason for that is that the manufacturers have not yet fully exploited the media that the television screen offers.

Traditional machines

"Ace's Side Winder demonstrated that people will go on to video fruit machines, that they are content to play them just as they were with traditional machines. And I believe that the manufacturers themselves agree that they could have gone further in exploiting the medium which would have enabled them to justify the extra cost. It remains to be seen whether they can successfully exploit the new medium. I think they can and that is what we will see at the next exhibition".

Roy Ashworth the skillful diplomat came out in response to the question: You have stated that the industry will, in relevant terms, prosper. The key phrase here is 'in relevant terms'. What does that mean?

"I think I am justified in that degree of optimism and if you place a heavy emphasis on 'in relevant terms' then it is probably a fair reply. Perhaps it is best explained as, in relation to most businesses we are doing reasonably well in my opinion".

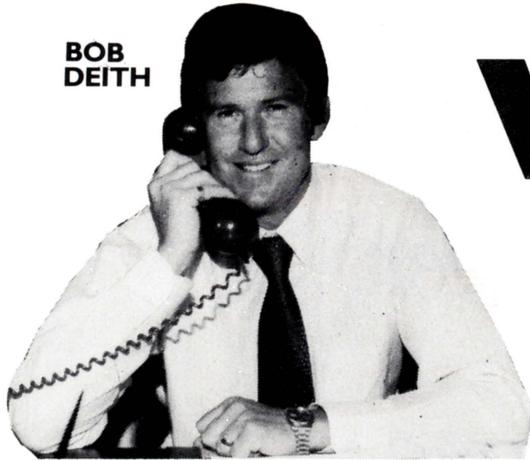
It may come as some relief to those sectors of the trade currently worried about the downturn in business that one of its leaders should feel that the outlook is not so bleak.

Given the question: Where does the trade go from here? Roy Ashworth replied: "Because of the diversity of the trade it follows that only a very general response is appropriate. Only heroes or idiots make forecasts, nowadays, with industrial prosperity so strongly linked to energy costs. But in my view the trade will continue to expand, to go forward and, in relative terms, to prosper, because of increased leisure time; also because we are a hard-working, entrepreneurial and inventive industry. Despite the effects, hopefully short-term, of the recession on current trading, particularly effecting manufacturing and distributing, things will improve. One could, of course, make extensive reference to the effect of video on our trade. This product does have current profitability problems. However, it has been a welcome shot in the arm for many. The period of commercial rationalisation will be painful for some, but beneficial for the industry as a whole. I feel video is not only here to stay, but in its various forms of application will be a mainstay of the trade in the future".

Taken literally, the verdict is modestly promising and worth noting, for, "strong man" or not, Roy Ashworth's track record and that of the company he serves bears the closest scrutiny and comes away with head held high. Credit for that, in no small measure, is undoubtedly due to the quiet but forceful man at the centre of operations in Burton-on-Trent. Roy Ashworth's resilience, single-minded dedication to the "right way" of doing things, immense loyalty to Nat Solomon, his board and his company is perhaps best summed up by basic philosophy for business success which came after a great deal of careful choice of words and, predictably, was credited to his company rather than himself: "It is true of the amusement machine industry, as any other, that a company should seek in its day-to-day practices, to acquire and retain a reputation for business integrity and fair dealing. This is a reputation which we guard jealously at Associated Leisure".



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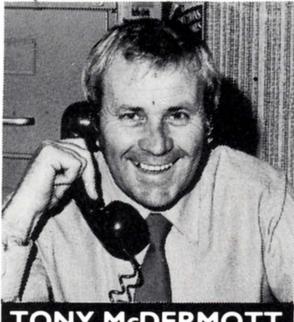


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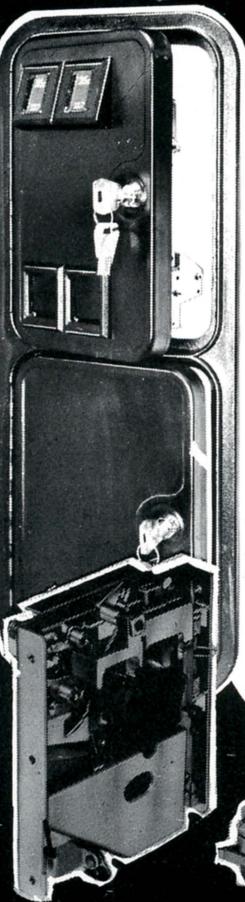
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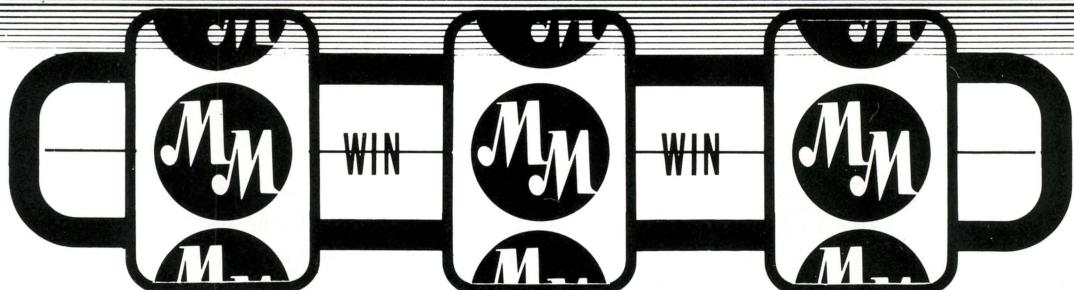
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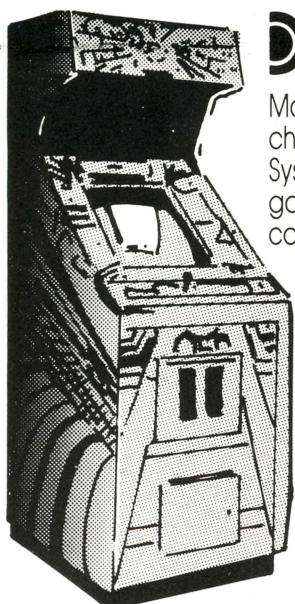
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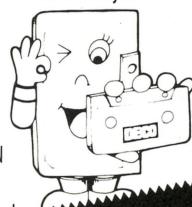
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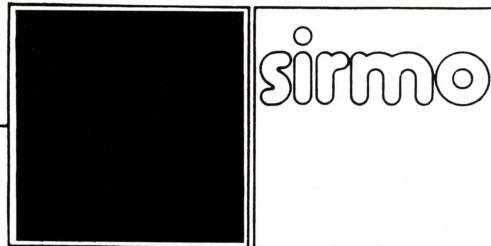
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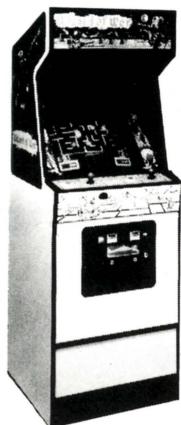
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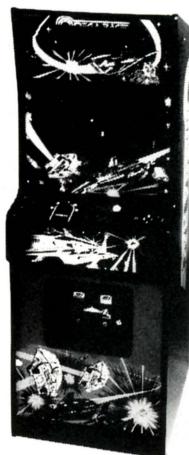
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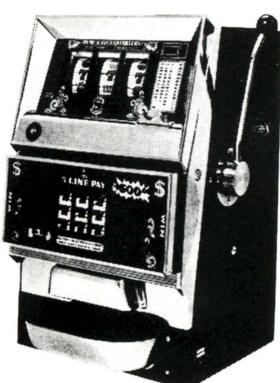
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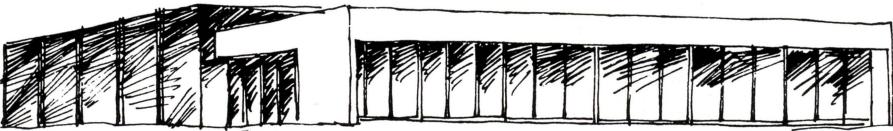


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IRELAND: Why the Yanks keep coming . . .



THE delightful setting pictured on the preceding page is known locally in Limerick as Fedamore House. Internationally it is recognised as Atari's overseas sales nerve centre; the idyllic location from where Shane Breaks conducts his business.

It is just part of an American introduction of the coin-operated industry into the Republic of Ireland. Bally have been there for 17 years. Midway just over a year. Atari have been there for three years, while Exidy are setting up shop there now . . . , and so are Stern.

Ireland has suddenly taken on a fresh importance in the international coin machine industry.

Why? We took a trip to Ireland and toured the factories and the offices of people in the course of setting up factories to find out. Here is the result of our investigation . . .

Bally's Dublin base.

It really is a long way to Tipperary. From Dublin the main road runs over 100 miles of delightful countryside but often with frustrating bends—there are no motorways in Ireland—before the sleepy little rural town is reached and we found that Atari is so highly regarded as a prolific employer in the locality that it had its own road direction signs.

Our quest was to find out what brought the American giant of the coin machine world away from the sunshine of California to this quiet backwater of rural Ireland. Indeed, what magical formula has resulted in three American giants setting up there with two more certainly on the way.

The Irish Industrial Development Authority must clearly consider itself on the receiving end of birthdays at present, for their quest is to create jobs. For the Americans, we discovered, the main attraction is hard cash.

But why not South Wales or the North-East of England, where the incentives of rent-free factories for a couple of years and various other carrots seem to attract their takers too?



Low export tax an enormous incentive

The answer came from Bally, the pioneers of manufacturing in Ireland. Their general manager, Eamonn Nugent, said from his Dublin office: "There are many reasons which together make it a very attractive proposition. But the main one is that companies manufacturing in Ireland for export pay only ten per cent corporation tax. In the United Kingdom they pay 48 per cent. That represents an enormous incentive".

The importance of this factor was backed by Kevin Hayes, Managing Director of Atari (Ireland) Ltd. at Tipperary. "But there are other reasons too, which basically amount to the IDA practically holding your hand throughout the operation, piling in help, advice, grants right down to the smallest detail, in order to assist you to set up here".

It is all down to jobs. Bally's financial director Dermot Finnegan gave us a summary: "The IDA is a very, very professional organisation. They offer a package of incentives to would-be employers coming into Ireland and work in close liaison with other spin-off agencies, such as ANCO, which is another Government organisation which trains your staff for you to produce your products.

"To get to the roots of Ireland's unemployment problems—which the Government schemes are largely overcoming now—you have to go back a long way. At present 50 per cent of the Republic's population is under 25 years of age and each year the school-leavers are having more and more difficulty in finding a job.

"It was once an agricultural-based economy, but emigration changed all that and the Government had to find new industries to bring the country up to date. It founded the IDA and backed it with buying power in the form of heavy financial support to create jobs to get the young people out to work.

"The big question with anything that is heavily subsidised is, is it cost effective? Here there is plenty of evidence to show that it is. The Republic now has more electronics companies than in any other country in Europe and over the past couple of years the country has had Europe's fastest growth-rate. So the Government's scheme is working".

Certainly it is working for the coin machine industry. Trade influences, backed by other international influences, have brought about a situation for the American coin machine giants where they had to find a back door into Europe.

Shipping costs were escalating, import duties were climbing, the dollar was climbing, making their equipment more and more expensive in Europe. There was also the natural desire to build machines rather than sell kits—the mark-up is higher on the completed unit. With video games contracting in volume in Europe it could be that the Americans are casting a covetous eye on the lucrative British and West German fruit machine markets as well.

There are all kinds of influences such as these which have combined to make it a desirable move.

The incentives offered by the Irish Government, which vary from region to region, depending upon the relative degree of desirability for industry in each area, together with the lack of a language barrier, the availability of inexpensive labour, a surplus of technical brains being turned out by Irish colleges, local components suppliers hungry for orders, good communications with the United States and Europe, all add up to Ireland proving to be the closest thing to the bottom line for some and considerably higher for many.

So what precisely are the Americans doing?

Bally established a factory in Ballymount Road appropriately in Dublin in 1964 and currently use



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55,000 square feet for producing fruit machines for the UK market and for Australia. Last year they set up a separate unit to produce Midway video games at the rate of 50 a day. Currently Wizard of Wor and Omega Racer are on the line, many of them going to the still vibrant US market, with a run of the successful Gorf to follow.

Dublin is used by Bally and Midway to service the European market, but that pre-supposes that Europe wants what is currently on the Dublin line. It is therefore not as clearcut as that and Dublin is looked upon by Midway as a support factory for Chicago, both making games for each market depending upon the strength of demand.

Bally initially looked on Ireland as a gateway to the British market and as one to Australia—while the Republic of Ireland enjoyed Commonwealth preference status, which no longer applies.

From the start the company employed all the resources of the IDA as it developed over the years and although they did not initially get the benefits of today's newcomers, they have enjoyed many of the fruits of the Irish Government's growing sophistication in the field of attracting industry.

Even now, 17 years after they initially opened up, Bally make use of the ANCO training schemes. Eamonn Nugent said: "Manufacturers pay a training levy to ANCO and if you are seen to be actively involved in up-grading the skills of your people you can reclaim your levy or at least a high percentage of it.

ANCO run courses in all types of trades and skills and if we need a particular specialised type of training, then they will organise a course to cover it. They tailor-make the course to fit your needs. We still make use of it".

The coming of Exidy and Stern into the Irish scene has been an open secret for some months now and the possibilities of the only other American giant not yet committed to European manufacture, Williams Electronics, is also widely talked of. It is known, for example, that Williams have sent delegations into South Wales and into Ireland to appraise the situation.

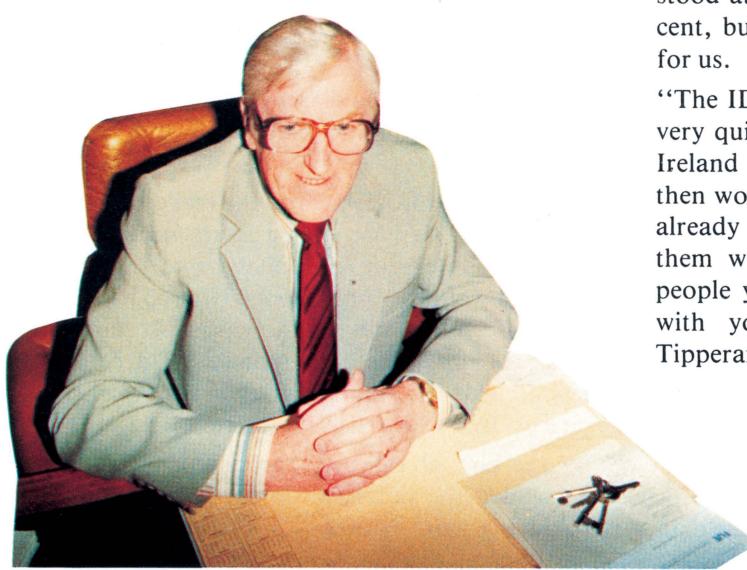
Access to Europe

The comings and goings of these fact-finding missions is not lost on the companies already in Ireland. Atari's Kevin Hayes testifies to his own company's preparedness to allow Stern executives to tour their factory, after permission had been obtained from US headquarters.

Atari have 26,000 square feet at Tipperary, are building extensions and are in the course of buying out their cabinet supplier's factory. They moved into Tipperary in July 1978 and shipped their first products by that December. They began with 25 units a day and by the height of the Asteroids boom were shipping 125 a day. It has settled down now to a steady 100 units a day.

"Access to Europe was the big draw for us", said Kevin Hayes. "The lessening of import duties and savings on freight by manufacturing in Europe were considerable. Import duties when we began stood at 8.1 per cent and are currently at 7.5 per cent, but building games in Ireland cuts that out for us.

"The IDA assistance gets a company started here very quickly. They build factories in the parts of Ireland where employment is most needed and then work on prospective takers. Our factory was already up when we got here. Basically, you tell them what you want to spend and how many people you will employ and then they do a deal with you. They extolled the advantages of Tipperary.



*EAMONN NUGENT,
Bally's general manager in Dublin.*





Midway's Wizard of Wor on the company's Irish production line.

"At first there was no tax on profits at all, but now it is 10 per cent. That is still a tremendous consideration. Initially, to qualify you had to be a manufacturer and an exporter. Now you only have to be a manufacturer. This advantage of low corporation tax is far more significant than capital grants on equipment that is offered by similar authorities in other countries".

Atari initially leased their Tipperary factory from the IDA but subsequently bought it outright last year. Even so, they bought it at below the market rate, another incentive offered in the IDA package.

"The IDA hold your hand right from the beginning", said Kevin. "The Irish Government, in its determination to adopt an aggressive marketing stance to attract industry, sliced through all of the red tape and set up a very streamlined organisation. You don't deal with one department after another. You deal with one man, sent in to look after everything for you."

"They build your factory, assist in personnel selection, train your people, even help with the costs of sending staff to California for specialist training. They even help find customers, but on balance the big motivation in our decision was the tax concession".

The result for Ireland is that Atari employ 150 people in Tipperary, a major consideration for a small town.

The spin-offs also come into the reckoning for the IDA. While they are setting Atari up in business they cast an eye to the demand that the factory will throw out for components. Now 60 per cent at least of every one of Atari's Irish machines consists of Irish-made components. The company sea freights its monitors and air freights its boards. Everything else comes from Ireland.

By the end of the year the company will have concluded the purchase of one of two factories belonging to Murray Kitchens of nearby Ardfinnan. The 36,000-square-foot factory has



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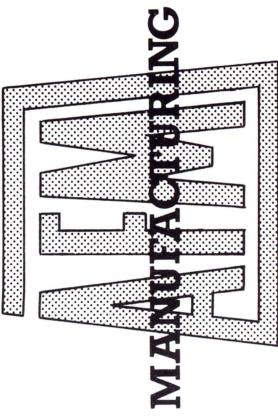
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Stern will create 200 jobs with opening of Limerick factory

been working full time on Atari cabinets for three years and its 45 employees will then go on to the Atari payroll.

Back at Bally, Dermot Finnegan's version of how the IDA go about things closely relates to that of Kevin Hayes at Atari. "They give you a first-class sales talk first of all, on why you should open up in Ireland. Then they take you around the country and show you factories that they have already built and the rents that you will be charged for them. They offer up to a 60 per cent discount in some parts of the country. It all depends on what the local unemployment situation is in each area. If you want to build your own factory, then they'll offer you grants and help you custom-build one. Then they'll give you a factory for a couple of years while your customised one is being erected.

Labour negotiations

"They bring you various suppliers to discuss components, help with labour negotiations, introduce you to unions, train your staff and even find you customers".

Bally go even further in local supplies of components, scouring everything in Europe, but preferably in Ireland. Their fruit machines are 75 per cent Irish components and their electronic fruit machines 90 per cent.

The newcomers to the scene, Exidy and Stern, are only there in spirit at the moment, but confirmation has been issued that they are on their way. Exidy Ireland Ltd.'s director of

manufacturing, John Hogan, works out of an office in Limerick at present.

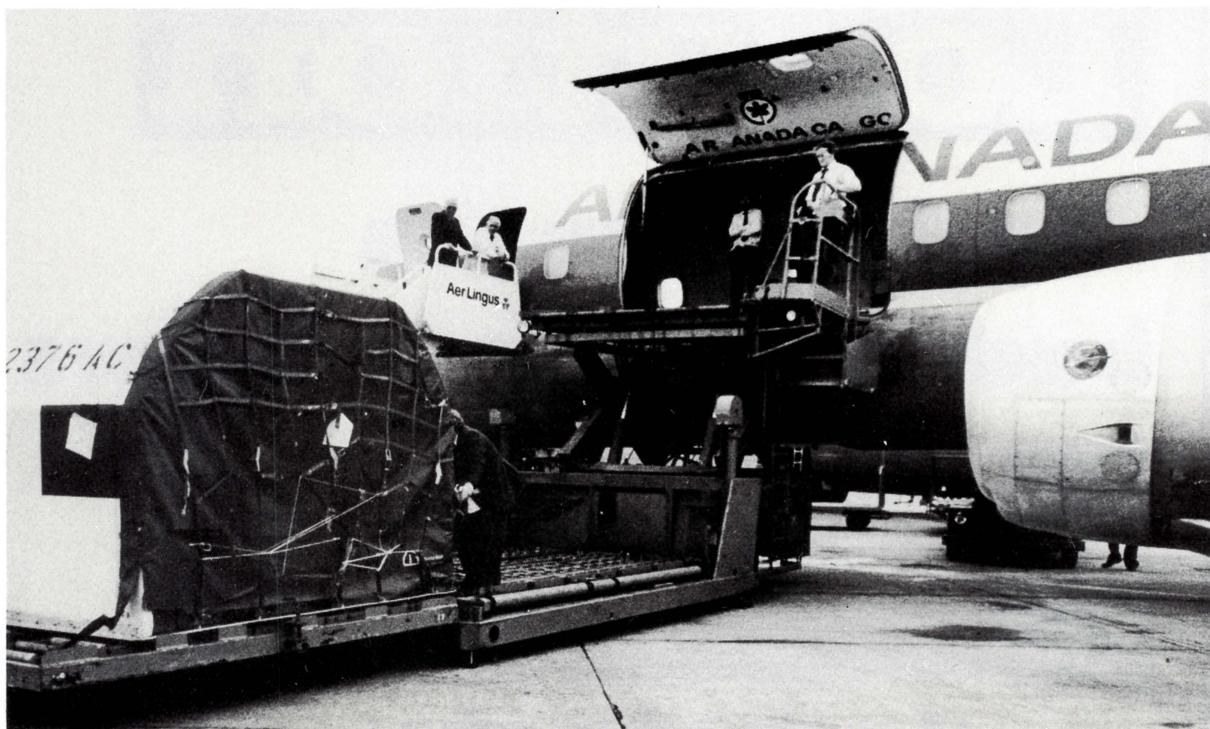
He was able to confirm that talks were proceeding with the IDA with a view to opening a factory at Nenagh in County Tipperary and going into production with 25 games a day by the end of October. The factory he has looked at covers 16,800 square feet and will come with three adjacent plots of the same size, ready for expansion. He will also bring, initially, 35 much-needed jobs to the little town.

"Our reasons for coming to Ireland", he said, "are basically the same as everyone else's. Access to Europe. Manufacturing in Ireland, as you have seen, has distinct advantages. Above all, the people want us here".

Stern's entry into Ireland was confirmed in *Coin Slot* during September, after weeks of speculation in the trade. The prospect of building Stern video games and possibly even pin tables and Seeburg juke boxes at a starting rate of 50 a day, will mean initially 200 jobs as the company plans to become as in-house as possible as quickly as possible.

Heading the whole operation will be Gil Williams, a Welsh-born American who built up the Atari Tipperary factory when it first started and who left to start his own arcade business last year. Now he is taking time off from his arcade to work on a consultancy basis for Stern, setting them up in a 40,000-square-foot factory on the Corc-an-ree Industrial Estate in Limerick.

The speed with which the IDA work is emphasised



The weekly Air Canada freight of Atari boards arrives in Ireland.

by the fact that it was only in May that Gary Stern and his colleagues paid a visit to Ireland to meet the IDA, June when Gil Williams made the first of several visits to the country and yet the first games will come off the production line in Limerick in November.

Grant-aided factory

We sought background from Seamus Flynn, head of Pier Amusements in Limerick and a partner in the big Irish distribution company, Quintin Flynn Ltd. As a close friend of Gil Williams and a distributor of Stern equipment, Seamus has been helping with the arrangements for the new factory.

"They will have a grant-aided factory initially which will be bought outright by Stern at market value within a short period. Like everyone else, Stern want a doorway to Europe. Like everyone else, they chose Ireland for the language, the availability of easily-trained labour and above all, the package of incentives offered by the IDA, chief of which is the big corporation tax concession.

"What has not been mentioned to you, by the way, is the fact that there is a favourable arrangement between the Republic of Ireland and Canada which will make it cheaper for Stern to build its machines for that market here, rather than in Chicago.

"As you have been told, the degree of assistance from the IDA depends upon how badly they want you in each individual area. In Limerick the advantages are not quite as high as elsewhere in Ireland, but this is counterbalanced by the fact that there is an excellent National Institute of Higher Education here, which is turning out people qualified to a high degree in electronics. This will provide a reservoir of specialist knowledge from which Stern can draw".

Whatever decision may be taken at Williams, everyone else is either there or on their way. The fiscal attributes of an Irish factory have proven irresistible to the majority of the big American companies. What effect their proximity to the European market will have on the balance of power in the European manufacturing industry remains to be seen. At least we now know why they're coming.



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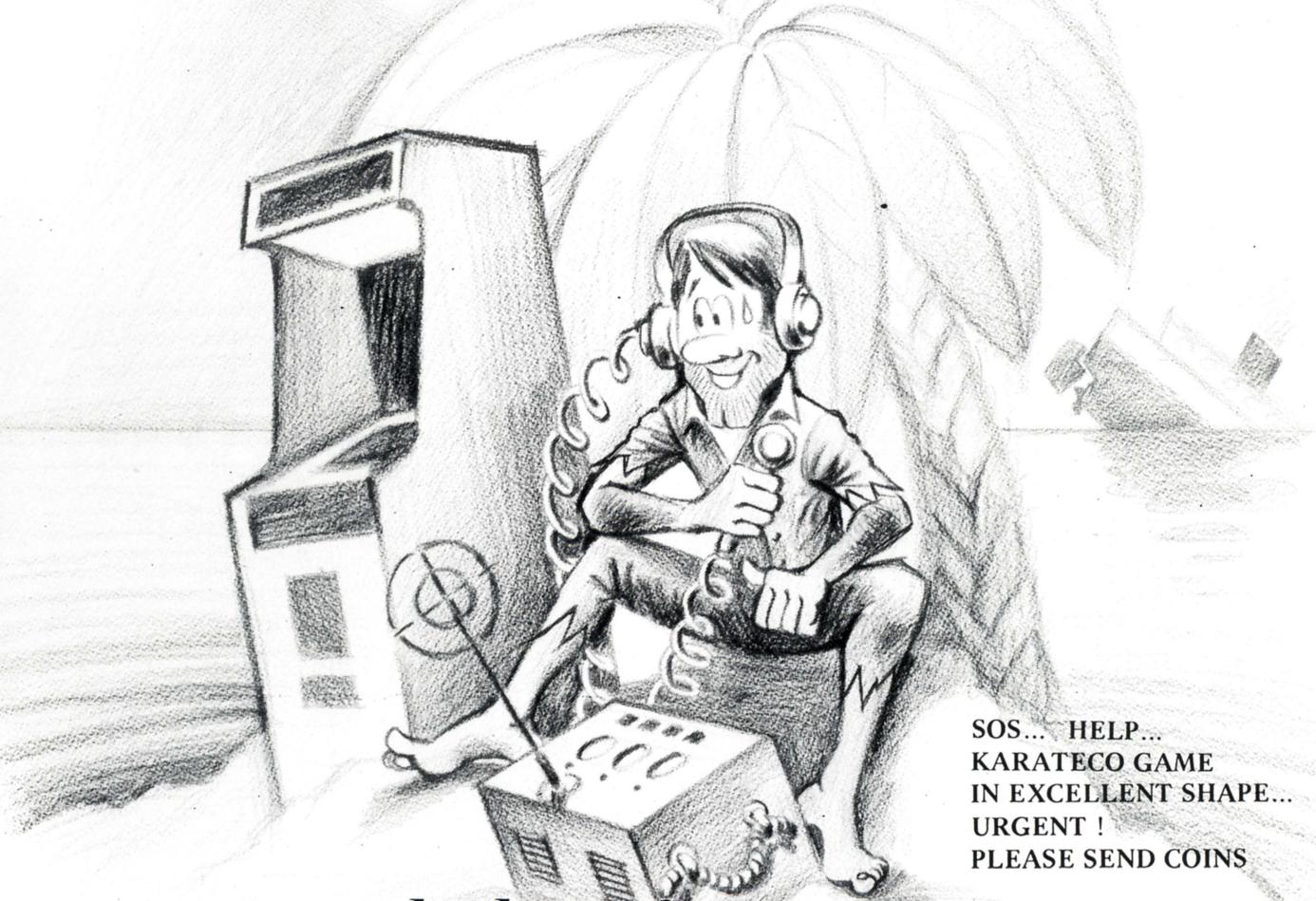
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A single rate tax of 20 per cent per annum on resident companies and individuals in the Isle of Man has led to it being described as a tax haven. To some extent the description might be accurate but there is rather more to it than just catching a boat or plane to the island and registering a business there.

The Isle of Man covers an area of 227 square miles and has a maximum length of about 30 miles, a width of 13 miles. The resident population fluctuates but averages around 60,000. It is a possession of the British Crown but, because it has a certain degree of autonomy of government, it is not regarded as part of the United Kingdom.

The vast majority of the population lives in the main towns of Douglas, the largest and the centre of the financial and tourist business; Ramsey in the north of the Isle, Port Erin/Port St. Mary in the south and Peel in the west. The climate is said to be moderate, better perhaps because of the sea's insulation and the influence of the Gulf Stream than that on the mainland.

Internal legislation

The island's internal legislation is decided by Tynwald which, in 1979, celebrated 1,000 years of unbroken parliamentary government.

Like the Houses of Parliament it is in two sections known as the lower and upper house. The lower house, elected democratically every five years and known as the House of Keys, has 24 members. The upper house, or legislative council, has 11 members plus three ex-officio members who are the Lieutenant Governor—the Queen's Representative—the Lord Bishop and the Attorney General. Legislation passed by Tynwald is subject to Royal Assent and the island's defences are looked after by the United Kingdom.

All of this forms a background against which the possibility of entering business in the Isle of Man must be seen.

The island's government does encourage the entry of new businesses and it hopes by so doing that young people will be discouraged from leaving, and that a population of up to 80,000 might live there by about 1995.

It does not, however, appear to encourage amusement machine firms. The island's own

A tax with for the

Gaming Board of control was recently briefed by the Manx Government to find ways and means of curtailing the growth of the amusement machine industry there.

There are certain differences between the use of machines on the Isle of Man and their use on the mainland. Peculiarly for an island on which gaming is rather frowned upon no VAT was payable on fruit machines until June 22 this year, although amusement only machines, such as videos, had paid the tax for some time.

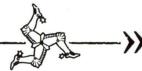
No licences are needed for AWPs or, more correctly, no charge is made for a licence. The police issue a resort certificate for each AWP machine which is renewable every year although no fee is charged. The police can restrict the number of machines in any one amusement arcade by restricting the number of certificates issued.

The maximum payout on a fruit machine in the Isle of Man is £1 cash. Tokens are not allowed and neither are £2 payout machines. This is a mixed blessing for the arcade operator who, although relieved of the many problems caused by tokens, is unable to purchase the modern AWPs which incorporate the £2 maximum payout in tokens. Consequently arcade machines tend in some cases to look rather older models than people expect to see in mainland arcades and some operators have to employ their own conversion engineers if they want to use more modern machines on the £1 payout level.

haven limitations industry



Reproduced with kind permission
of the Isle of Man Tourist Board.



In pubs and other single sites the problem does not exist. Fruit machines are not allowed to be sited although it has now been agreed that licensed private clubs may have them.

Talking to operators and residents on the island we learned that there is a rather strong religious bias against gaming which probably accounts for the refusal to allow AWPs in pubs and for the apparent wishes of the Government to restrict the growth of the amusement machine industry and arcades on the island.

Yet this attitude contrasts strangely with the fact that the Palace Hotel operates a nightly casino with games of roulette, blackjack, pontoon and punto banco being supplemented by innumerable jackpot machines. The Casino forms part of the Palace Hotel complex and the hotel bar remains open to residents and its own members throughout the hours of 11 a.m. until 5 a.m. The pubs on the island open from 11 a.m. until 11 p.m. on weekdays with opening hours on Sundays from noon until 1.30 p.m. and 7 p.m. until about 9.30 or 10 p.m. But as only a limited number of pubs are open on a Sunday the hours are mainly academic, although the Palace Hotel hours remain unchanged.

Religious feeling

The Casino is run under licence issued by the Manx Government which comes up for renewal next year when other enterprises on the island may make application for it. The Government takes about 25 per cent of the Casino's takings and a Government inspector is present on the premises throughout the hours of opening. The jackpot machines are emptied each morning about 11 a.m. and no machine is opened until the Government inspector arrives to supervise and confirm the collection of the takings.

Such an attitude seems strange on an island where religious feelings run high and where the Lord Bishop seems to exercise a considerable influence on the Legislative Council, at least where matters such as gaming are concerned.

At the other end of the scale amusement arcades are not allowed to open until 2 p.m. on Sundays although Summerland, a large entertainments complex operated by the Trust House Forte Leisure Group, is allowed to open its arcade at noon on Sundays. This special privilege, not accorded to other arcade operators, is probably

Resident

due to the fact that Summerland provides much by way of family entertainment and amenities and that it is obviously a welcome part of the Douglas scene of holiday entertainment.

Opportunities for single site operating are therefore limited because of the small size of the island and the ban on fruit machines in licensed premises other than private clubs. It is said that about 80 per cent of the single sites are operated by Strandmatics, a Barry Noble company which recently purchased the single site operating business of Manx Amusements from Arnold Petter and his business associates.

Video games and pool are popular on the island and Manx Amusements run their own pool leagues, having four men's divisions and a ladies' pool league with 14 teams.

The Isle of Man season runs from about Easter to the end of September. Arcades do not usually open on Sundays in the winter because of the restricted hours.

Obviously the tax advantages attract the mainland businessmen. Barry Noble has formed a company on the island and two north-eastern showmen, Claude Cooper and Kenneth Reader, are directors of the Crescent Leisure Centre there.

New industries

The Manx Government claims to encourage industry and its criteria for the acceptance of new industries seems to be that of environmental acceptability, which might not at present apply to coin-operated amusements, high added-value products, investment in plant and equipment and willingness to export.

Companies who can satisfy the Government get a 40 per cent grant towards the cost of new buildings, plant and machinery, 40 per cent towards the cost of non-recurring early expenditure, a 50 per cent loan of working capital at competitive rates of interest and deferment of repayment for two years, training grants where an approved scheme is in operation, a grant of up to

firms do best

40 per cent of the cost of moving a manufacturing operation to the island and assistance towards rental where premises are not bought.

Offset against those inducements must be the fact that such items as heat, light, food and clothes tend to be dearer on the island than on the mainland, raw materials are in short supply and most of them have to be brought into the Isle of Man and it is costly to return the finished products for sale on the mainland.

The island has its Control of Employment Act of 1975 and 1978 which generally require "non-Isle of Man" workers to have a permit. Isle of Man workers are either Manx born or must have been residents for a specified period of time.

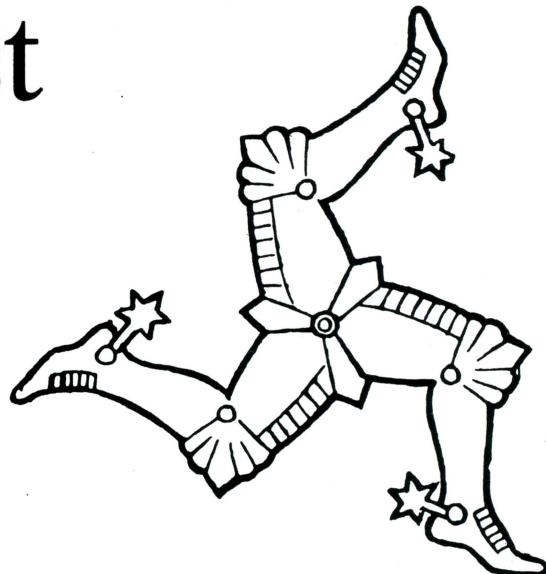
Work permits would normally be issued in cases where the employment was not against the island's interests or where no Isle of Man worker was available for the employment. We were told by a number of people in the amusement industry that there is not much skilled labour available on the island itself.

Resident companies

Only what are termed as resident companies are eligible for the 20 per cent income tax. They have to be incorporated in the island and be both controlled and managed there. It is not sufficient merely to have bank deposits; other assets are needed.

In practice resident companies formed by people on the mainland appear to have at least two directors who are resident on the island. Audited accounts forming the basis of income tax returns have to be submitted to the Assessor of Income Tax by June 30 following the end of the fiscal year.

From this it will be gathered that it is not possible to set up a holding company on the island through which financial transactions are conducted from the mainland and gain the benefit of the 20 per cent tax rate.



There could, however, be some benefits to non-residents of the island by utilising the services of one of the many Manx investment-holding companies. The ownership of assets by a non-resident of the UK would normally be subject to capital transfer tax on the mainland but the ownership of these through a Manx company could avoid that possibility.

In addition to the 20 per cent income tax the island does not have any tax on capital, other than on land speculation. It has no estate tax, no capital transfer tax and no higher than the usual rate corporation tax.

In what must seem Utopia to the heavily taxed mainland businesses there are many professional firms and commercial concerns such as the banks which are willing to offer advice on investments. Bank deposits on the island are not declared to the Income Tax department but no reputable professional firm would ever advise a client to make any deposits from the mainland which might appear to be made as a form of tax evasion.

One person told us that the main tax advantage on the island is to the rich. Salaried people or wage earners might find the higher cost of essential ingredients of living nullifies the difference between the 20 per cent tax rate on the island and the basic rate on the mainland. But resident companies, of course, would pay higher corporation tax if their business was on the mainland.

Like all islands the Isle of Man suffers from the problem of being surrounded by water. There are four weekly newspapers on the island but national daily papers are usually flown in. If the island suffers one of its many mists, papers, and mail, are sent by sea and do not usually arrive until mid-afternoon.

In favour of the Isle of Man is the fact that English people who work for resident companies there and who have settled on the island say they would not wish to return to the mainland. It is a pleasant place with a slower pace of life, exemplified perhaps by the famous Douglas horse trams which travel the length of the promenade, than in a mainland towns and cities.

But until the Gaming Board of Control has decided what steps it will take to curtail and control the amusement machine and arcade industry on the Isle of Man it is hardly likely that many mainland operators would be able to set up resident businesses there.

The simple thing for the Board to do might be to

follow the Gaming Board regulations applicable to the mainland. But that would mean charging licence fees for AWP machines which would not suit some of the arcade operators and it would mean permitting fruit machines in such places as pubs which would not suit the religious factor of the island which is strongly opposed to gaming . . . unless, presumably, it is in a casino that gives part of its takings to the Government.

Seek advice

Whatever the future holds one thing is certain. Anybody contemplating setting up a resident company or other form of trading enterprise on the Isle of Man or investing in many Manx controlled company would be prudent to seek the advice of one of the many professional firms there who are prepared to help.

There is also a flat rate Company Registration Tax of £200 per year on companies registered in the Isle of Man but neither resident nor controlled there.

Fruit machines in pubs would not suit Manx religious factor



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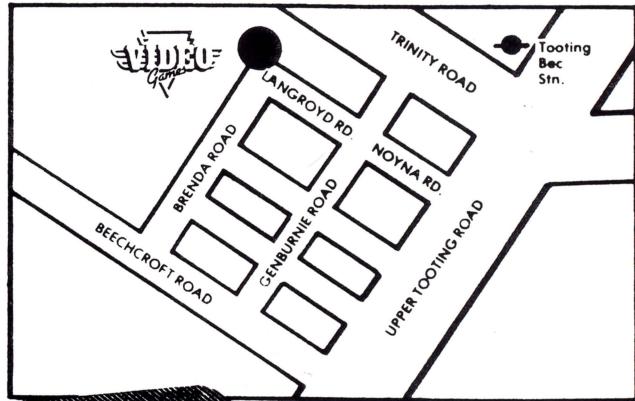
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One of the world's most important international coin machine trade exhibitions, the Amusement and Music Operators Association Exposition—the AMOA Show, for short—opens in Chicago on October 29. With the Japanese Exhibition and Britain's ATE, AMOA is regarded as the major launching pad for new video games.

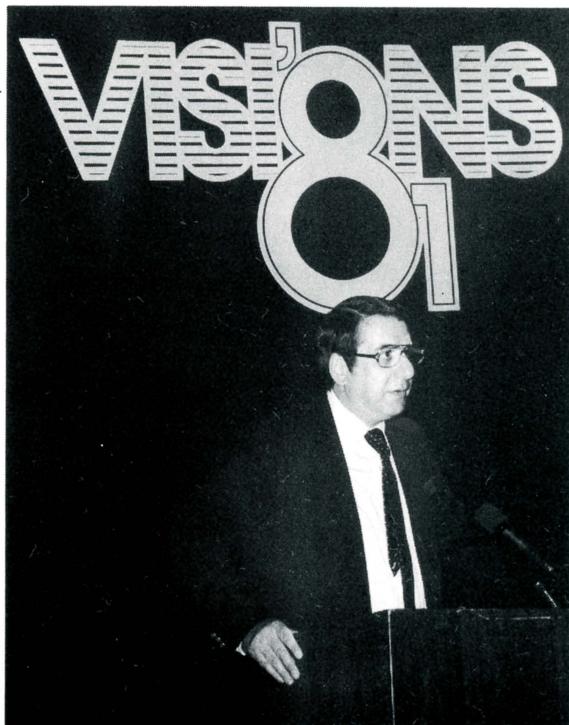
The rapid depreciation necessary in video games at present is having a profound effect on the international market. Fewer new games are being bought, yet the short-term appeal of video games is still apparent. The result is the growth in the market for conversions and the introduction, over the past year, of "systems".

Systems, basically, consist of using standard cabinets and components in such a way that the game presented on the monitor can be easily replaced by a more up-to-date feature, thus cutting back severely on costs. Since Japan's Data East Corporation introduced the first "system" package in Tokyo in October, 1980, the system manufacturing market has expanded rapidly as other companies recognise it as the means to continue the video games momentum.

The operators' problem is which system? All of the developers naturally promote their own as the most complete answer to the operators' depreciation difficulties. While refraining from advocating any one system as being better than the rest, we have taken the recently-introduced, SEGA/Gremlin's Convert-a-Game and Convert-a-Pak and, through a detailed interview with the company's Chairman and Chief Executive Officer, David Rosen, examined in great detail the state of the United States industry and the policies that led up to the introduction of the systems, including a description of their function.

David Rosen began by pinpointing the size and role of the video game in modern society. "Video games are an entertainment medium unto themselves. The consumer public and business communities have recently come to recognise the amusement games industry as a major force within the larger entertainment industry. And with

SYSTEMS:



DAVID ROSEN addresses distributors at SEGA/Gremlin's California conference earlier this year.

good reason. Although the precise figures are impossible to come by, our studies point to the fact that cash box revenues of the games industry are greater than either the domestic motion picture industry or the recorded music industry".

As the chart displays, industry surveys report that movie box office receipts totalled \$2.7 billion in 1980 while the music industry chalked up revenues of \$3.7 billion. Revenues of the US coin-operated amusement industry are estimated—albeit by Sega itself—to have totalled over \$5 billion in 1980.

Mr. Rosen also estimates that there are about 700,000 computer video games on location in the US at present with average earnings exceeding \$5,000 per year. He points out, of course, that it is common for new "hot" games to earn \$10,000 to \$15,000 during their first eight to 12 months on location.

The way David Rosen sees the future for video games

The social phenomenon of video games is put down to four prime factors by Mr. Rosen.

1. Unlike more passive forms of entertainment such as films, spectator sport and concerts, computer video games give the individual the opportunity to actively participate, to test one's skills and to create a fantasy environment of his own choosing.
2. Computer video games are teaching and learning machines which retain a player's keen interest and inspire the element of challenge in players.
3. By merging the worlds of computer science, communications and entertainment, the video games industry has devised an undisputed "formula" for success. Popularity of the games serves notice of their fundamental entertainment value and may, in fact, serve notice of the consumer's underlying need to escape daily pressures and doldrums with an entertainment alternative to television or the movies.
4. The serious observer of the computer video game phenomenon may conclude that these advanced forms of electronic entertainment enjoy broad-based popularity, in large part because the traditional alternatives of passive entertainment such as television and motion pictures fail to offer the combination of mental stimulation and personal involvement which are unique to computer video games.

The upgrading of the video game's involvement in modern society, he sees, as the newer concepts such as his own company's introduction of games into the P.J. Pizzazz fast food outlets. But he is quick to warn that social phenomenon and new outlets aside, the trade must not be lulled into believing that the industry's past success will be as easy to come by in the future. "The rapid growth we have all enjoyed has brought with it some very real problems—problems which must be studied and analysed and dealt with if the industry is to continue to grow and prosper".

Mr. Rosen outlines five major current industry issues as: 1, market maturity; 2, pace of new game introductions and trade-ins; 3, game copiers; 4, distributor capitalisation; and 5, distributor complacency.

MARKET MATURITY

"Market maturity means market saturation. Much of the prime real estate for new arcades and single sites has already been pre-empted. Most regional shopping malls have arcades and most sites have the latest in video games.

"This means the pipeline for new equipment sales is slowing down. What will a matured market for new equipment sales look like at the end of the year? We should plan our business strategies around what will be a three-tier market segmentation for new equipment sales".

He sees the three tiers as the market for new "hot" games, the replacement market and the pipeline to new locations.

As for new "hot" games, he feels that the trade will continue to see a large and growing market for new games as long as they are top games. "But operators will be more and more selective in their choice of models as there are just so many 'winners' an operator can absorb. Moreover, we will see a continuing trend in arcades to 'banking' two, three or four of the same model. The demand for hot games, coupled with banking of games, will add to distributor sales of the current 'winners', but will also take away from sales of the average \$250-a-week game. It's wild, a game earns \$250 a week in the US and we call it average! At worst, we can expect to see the latest 'hot' game sell very well, but the new equipment market for all other models may well be sluggish compared with the sales levels we enjoyed previously".

The second tier, replacement market, is the largest segment in a saturated market place. This is where Mr. Rosen sees the bulk of future new equipment sales coming from. The problem as he sees it, is how to tap the replacement market realising the economics of equipment trade-ins are not attractive to operators, except to purchase the latest 'hot' new game.

The third segment of the mature market is the steady, albeit slower, stream of pipeline sales to new arcades and locations. He expects to see an increase in the trend towards 'space theme' type arcades and a rapid expansion in fast-food outlets.

"The words 'market maturity' or 'market saturation' may at first sound ominous and foreboding. However, change always presents new opportunities. Foresight and proper planning will allow us all to prosper from such new opportunities".

PACE OF NEW GAME INTRODUCTIONS AND TRADE-INS

Reverting to his industry issues, Mr. Rosen turned to the rapid introduction of new games. "Distributors and operators alike are being flooded with new games, some 'hot' and others not so 'hot', but nevertheless good money-earners. Broad player appeal and enthusiastic response to new video games has turned out to be a double-edged sword. On the one hand, both distributors and operators enjoy record sales and earnings. On the other hand, distributors and operators alike are virtually forced to carry all of the latest games.

"The problem is common to every operator: How

to have all the latest games when purchase prices are up and trade-in values are down?"

He details the dilemma as follows: "Every operator must keep on location the good earning games which currently have relatively high trade-in values. At the same time, he must continue to buy the new 'hot' games. Taking it one step further, when this same operator decides to trade in a particular model his decision is made about the same time as everyone else. The market is then flooded with the particular model and the floor drops out of the resale market. Therefore, the operator has little or no trade-in to offset the initial purchase price of a new 'hot' game and the problem then becomes one of obtaining the capital to sustain his operations.

"We can all remember back a few years ago when the timing of trade-ins was critical to an operator's financial success. Today the element of timing is virtually non-existent. It is simply a matter of survival that an operator must have all the best new games.

"Trade-ins are the key to tapping the huge replacement market we discussed earlier".

GAME COPIERS

Game copiers are the scourge of the industry, said Mr. Rosen, unequivocally. "These outlaws threaten the trade's orderly growth and wellbeing. By now we should all recognise the fundamental dangers to our industry if we condone the action of game copiers".

DISTRIBUTOR CAPITALISATION

The flood of new games has put a strain on the financial resources of distributors just as it has the operators, says Mr. Rosen. The US prime rate, hovering at around the 20 per cent mark at the time of writing, means that borrowing for most of the US trade was costing 21 per cent or more.

SEGA/Gremlin, as a manufacturer and a major distributor and operator, is just as sensitive to the financial pressures of distributors as anyone else, he points out. Distributors are being squeezed from both sides; by the manufacturer with ever-increasing research and development costs and normal inflationary factors increasing prices, who expects the distributor to take large inventory positions; and by the operator, who wants price relief from the distributor.

DISTRIBUTOR COMPLACENCY

Obviously, bearing in mind the problems discussed, distributor complacency has no place at

1980 Gross Revenue By Industry (U. S.) Comparison Chart

6

5

over \$5.0 billions (c)

4

\$3.7 billions (b)

3

\$2.7 billions (a)

2

1

**Motion Picture
Industry**

(a) Motion Picture
Association of
America

**Music Industry -
Records &
Tapes**

(b) Recording Industry
Association of
America

**U.S. Coin-Operated
Amusement
Industry**

(c) Based on a Sega estimate
and an industry annual
survey

present. It is no time to believe that record sales levels will return to the state that existed up to earlier this year.

"The writing is on the wall for anyone to read. If, in the long run, distributors do not provide a method to satisfy the critical 'trade in' problem, the operator will find and develop alternatives that may be less than desirable to us all."

"It bears repeating that the real fuel of our industry's growth is player revenues. Without the revenues the operator cannot buy new equipment from the distributor—and so on up the ladder".

To look at it from the player's point of view, Mr. Rosen went on to point out that player revenues will only continue to be good if the player is offered a continuing series of new and interesting games. "We cannot return to the past where simple cosmetic changes or rotation sufficed".

So what does the operator do? When faced with the decision to purchase a new game, the operator, as Mr. Rosen sees it, has three options. He buys the new "hot" game, refuses to buy the game or bootlegs the game.

"If an operator chooses to bootleg a game—that is, bring in an illegal copy—or if he refuses to buy it at all, both the distributor and the manufacturer loses out. On the other hand, an operator's decision to buy a new 'hot' game today is a real economic problem to him, because eight months from now the game may have little trade-in value. This is the type of problem that faced operators in Japan two years ago.

"Many people have asked me whether I can see the Japanese problems of two years ago repeating themselves in the US market. I believe that the US will undoubtedly follow some of the trends seen in Japan and Europe. But the impact will be quite different, certainly more on the positive side due to very different circumstances. First the boom period in Japan was based on the fevered excitement over one single game. In the US market growth is well balanced over a broad spectrum of products. Secondly the boom period in Japan was blown well out of realistic proportions by amateur operators who literally converted grocery shops and butcher shops to games rooms. This type of event has not happened in the US to any measurable extent. Thirdly, the higher concentration of population in Japan and Europe encouraged a 'boom and bust' fadishness. The balanced geographic dispersion of the US population tends to mitigate any fadishness. For these reasons and with care and planning the US market should evidence continued well-balanced growth".

Mr. Rosen's comments all tended to funnel to the same conclusions. The evidence of "systems" in the international marketplace has clearly indicated that many companies feel strongly that it is the only real answer to incontrovertible conclusions about the state of the industry.

"For the past two or three years SEGA/Gremlin has been working on a concept which is founded in the real economic need of distributors and operators. During the past two years, in co-

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- 150 exhibitors on 12.000 m² exhibition area
- the results of the exhibitor survey
- new business connections: 96%
- direct orders booked: 82%, in the field of vending machines: 73% -
- positive judgement of business subsequent to the fair: 98% -

IMA '82 is building towards an all-round success

and will enhance worldwide its reputation as the leading trade fair of all the branches of the coin machine trade.

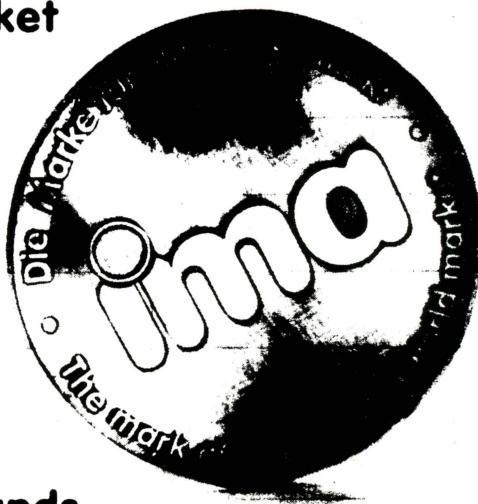
IMA '82 – If you want to succeed, you ought to participate.

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Fair management IMA '82
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D-6200 Wiesbaden, Germany
Tel. 06121/524071, Telex 04186518



**21.-24. January 1982
Frankfurt/Main, Fair Grounds**

3. International amusement and vending trade fair



Market maturity in three segments for 'hot' games

ordination with Sega Japan, we have taken this concept and put it through the tedious process of implementation and field testing. SEGA/Gremlin has studied, reviewed and analysed every market characteristic and trend from both the viewpoint of the distributor and of the operator.

"It was, of course, our Convert-a-Game with built-in conversions capability. The system represents the most recent state-of-the-art technology. The G-80 hardware system will accommodate as yet unrealised level of sophisticated complex game play and conversion with our Convert-a-Pak is incredibly simple".

Mr. Rosen insists that the cartridge and cassette systems seen up to now are "limited" in capability. G-80 has far more ambitious potential. The hardware is modular in design. It contains a card cage of six PC boards. Each has a different job, CPU, memory (holding the game programme), video board, video background board, sound and speech. The boards to be replaced are slipped out and the new ones inserted—and that is all it takes to change the game.

How does it solve the problems?

Mr. Rosen referred back to his key industry issues.

"On market maturity I said that the market can be viewed in three distinct segments, that for 'hot' games, for replacements and the pipeline to new locations. The Convert-a-Game and Convert-a-Pak systems meet the needs of all three. On 'hot' new games, we believe that the games we will offer the marketplace will prove the right ones and with the purchase of the games, the distributor will be providing the operator with an additional major benefit—built-in resale value at a later date. This

is because of the Convert-a-Pak conversion capability.

"On the replacement market you will have on the one hand, sales of Convert-a-Game to operators who need to add or replace equipment for whatever reason and on the other hand there will be operators who will want Convert-a-Games for their play-appeal and for the economic advantages. Later there will be sales of Convert-a-Paks. The one compliments the other.

"A simple sum shows up the operator's economics:

Original new game

Operator's cost	\$2,800
-----------------	---------

Alternative A: Trade in old game and replace with fresh new game

Operator's cost	\$2,800
Less: Trade-in	800
Net acquisition cost	\$2,000

Alternative B. Conversion of SEGA/Gremlin Convert-a-Game

Operator's cost	\$1,000
-----------------	---------

From the operator's viewpoint, said Mr. Rosen, the new SEGA/Gremlin Convert-a-Game will cost about the same as any competitor's game without conversion capability. But the SEGA/Gremlin game has built-in resale value of about \$1,800 to \$2,000 which should make the operators happy.

"And that resale value holds over time because it is based on game conversion, whether the original game is first converted after three months, six months, even two years. Then there is the economics of an operator's buy/no buy decision:

Borcwest

Spot Light



A proven top of the bill performer

3 new features



AUTO NUDBE

In addition to the normal up or down nudge buttons, Barcrest introduce the unique Auto Nudge. Players may press this single button letting the machine play the reels for them. The machine will always nudge to the best win line when one is available.

GAMBLE FEATURE

Wins can be gambled up to £2. A no lose feature comes into play for all wins of 40p and over. Further excitement is created by the reels spinning to record the gamble result, an added advantage when the random hold after win comes into play.

AUTOHOLD

The new Autohold feature will automatically hold on the best option, so that no hold advantage is missed. Player may over-ride the Autohold at will.

High security solid state 50p change mechanism.
Front reading meters for easy speedy collection.

MHG SALES

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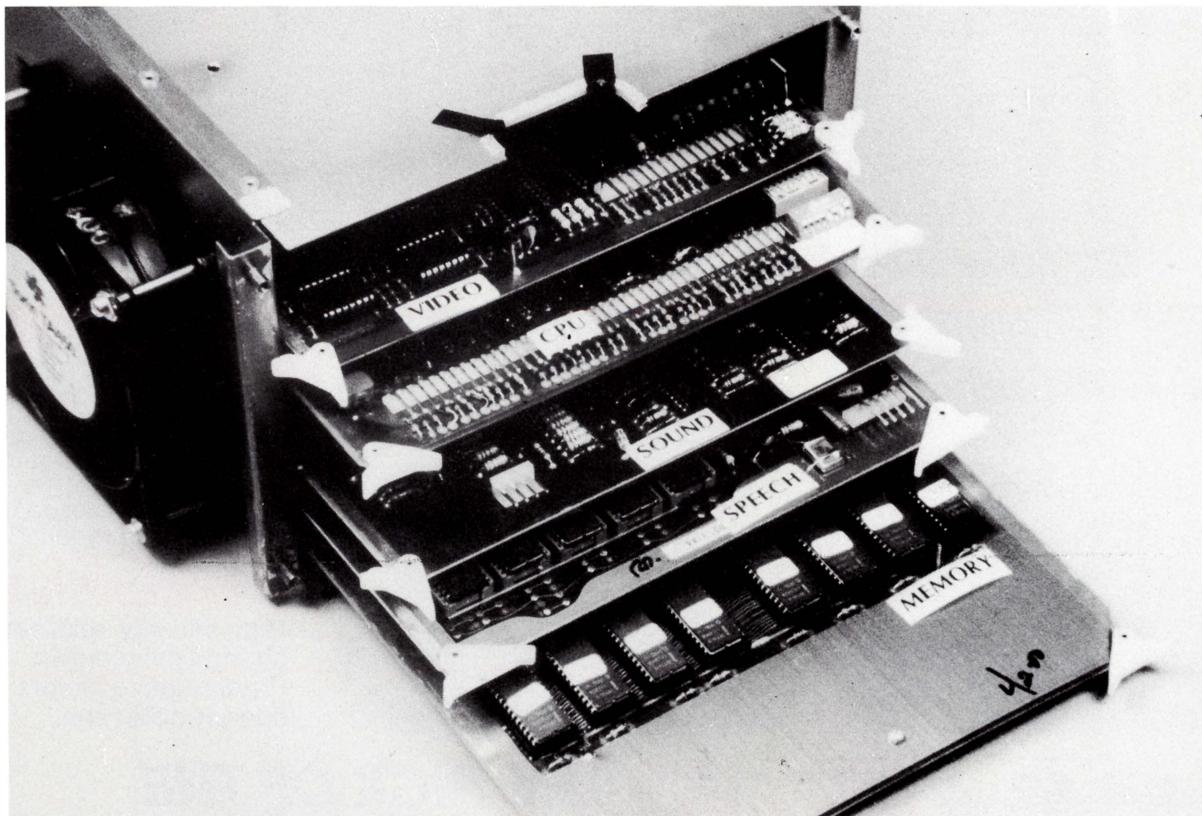
Low Lane, Horsforth,
Leeds LS18 4ER Telephone Leeds (0532) 587573

The U.K. Sales Division of Music Hire Group

OPERATOR'S BUY/NO-BUY DECISION

NEW GAME ON-LOCATION	AVERAGE GROSS \$ PER WEEK	TOTAL GROSS \$
First 16 weeks	\$300	\$4,800
Second 16 weeks	\$200	\$3,200
Third 16 weeks & thereafter	\$100	\$1,600
<hr/>		
CONVERT-A-PAK CONVERSION AFTER SECOND 16 WEEKS		
Incremental Earnings First 16 weeks	\$200	\$3,200
Incremental Earnings, Second 16 weeks	\$100	\$1,600
<hr/>		
Total Incremental Earnings, 32 weeks		\$4,800
<hr/>		
Operator's 50% share		\$2,400
<hr/>		
Cost of Convert-a-Pak conversion		\$1,000
<hr/>		
Cost of other new game, net of trade in		\$2,000
<hr/>		

The SEGA/Gremlin G80 hardware.



The Pressure on operators will increase significantly

"The example in the chart shows an operator would enjoy incremental earnings of \$2,400 during the first 32 weeks after Convert-a-Pak conversion to a new game. These incremental earnings are very attractive given a Convert-a-Pak cost of approximately \$1,000. On the other hand, incremental earnings of \$2,400 are really quite marginal if the operator must make a \$2,000 investment in a new game, net of trade-in value.

"From the distributor's standpoint a new SEGA/Gremlin Convert-a-Game earns him at least the same margins as before. Equally important, sales of Convert-a-Paks are quite attractive to the distributor as well as the operator".

Going back to his key industry issues, Mr. Rosen moved on the pace of new game introductions and trade-ins. "I sense a trend which suggests the player is not only more sophisticated in terms of what he expects from a game, but is also less and less inclined to stay with a new game for any period of time. This would mean manufacturers will be forced to introduce new games at an even faster pace than today. The added pressure on operators to have all the latest 'hot' games will increase significantly".

He sees the problems of too many product introductions, high new game purchase prices and low-trade-in value all being mitigated by the use of systems—and more specifically, of course, SEGA/Gremlin's system.

"It is important to remember that today's great 'winner' is next year's problem unless you can

convert the game to something new that is also a top money earner. Convert-a-Game is a concept whose time has come and I believe SEGA/Gremlin is the first to develop and implement a truly sophisticated and flexible system to meet current and future market demands".

On distributor capitalisation, Mr. Rosen referred to the benefits of conversion in terms of less capital tied up in Convert-a-Paks allowing a distributor to finance additional new business. The ability to finance additional sales should properly be viewed as incremental business attributable to the Convert-a-Game system, he says.

Potential market

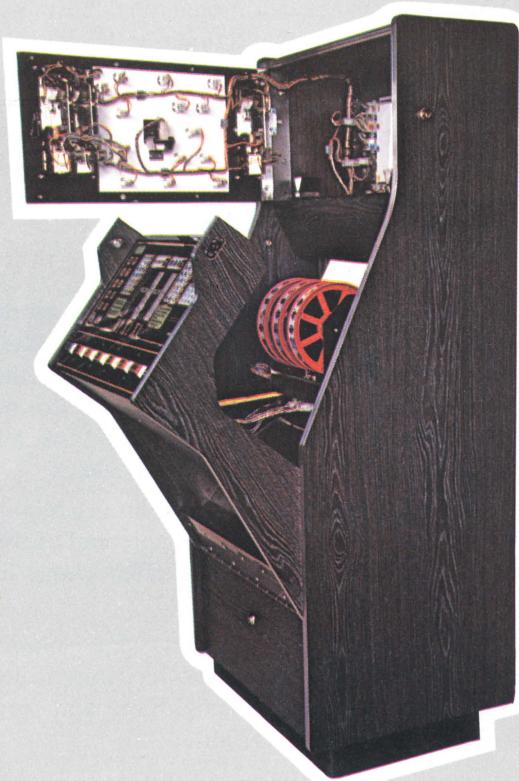
Where does all of this bring the video game industry? As Mr. Rosen sees it, there are 700,000 video games on location in the US and over the next three years all of them will have to be replaced. That is his potential market for his Convert-a-Game and Convert-a-Pak systems.

But it will not prevent SEGA/Gremlin producing straight games, as it recognises the potential of the arcade market which needs special effect games in unique cabinets.

Nevertheless, it is plain that one major international manufacturer has recognised his future as being in systems. A bold move and only time will tell if Mr. Rosen is right.

Introducing 'XI' The First AWP From THE GAME WORLD GROUP

FEATURING



- * Three way each way nudge feature with ten nudges available.
- * Optional double or nothing gamble feature on five or less nudges.
- * No lose gamble on all 40p, 80p & £1 wins
- * 10p play with 10p, 50p coin and 10p token pay slides
- * All front opening for easy access
- * Random Hold
- * Maximum of £2 pay out
- * Designed in unison with the GAME WORLD 'Cabaret' cabinet
- * Pay out according to take levels
- * GAME WORLD quality and reliability with a full year's guarantee for parts and labour

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The new Video AWP machine from ACE, the market innovators, brings absolute magic to the conventional reel game.

Features include Video display, Sound effects, Sidewind, each-way Nudge, Gamble and all the usual high technology and reliability you have come to expect from ACE.

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LONDON Direct Machine Distributors, Falcon Road, Battersea, London. Telephone: 01-233 5000.

WEST MIDLANDS Nichibutsu UK Ltd., 999 Wolverhampton Road, Oldbury, Warley, West Midlands. Telephone: 021-544-4299

NORTHERN IRELAND John Coyle Amusements, Main Street, Ballyshannon, Co. Donegal. Telephone: (072) 41450.

BROKERS Rowe and Pitman and bankers Robert Fleming are on a delicate mission. They want to persuade big city investors that a fast growing maker of fruit machines is the right sort of company for a full listing on the London Stock Market. After Tring Hall's earlier abortive attempt to float Space Invader company Subelectro on the USM, the stock market is sensitive to companies in this sector of the leisure industry. A talent to amuse even with the wondrous micro-chips is all very well, but what about the quality of earnings?

Whatever the city's views down in Cardiff, Messrs. Jack Jones, Howard and Alan Parker and John Monks are rightly proud of their company JPM Automatics, which may be getting a full quote later this year. Founded in the early 1970s the JPM track record shows profits of only £110,000 in 1976 rising to £1.5 million last year. JPM specialises in electronic fruit machines known as AWPs in the trade. They are not into Space Invaders, there is no direct comparison with Subelectro.

Within the industry JPM's reputation is second to none. They are able to charge higher prices for their machines than their rivals, because they consistently attract more customers and get higher takes, says one London broker. They keep coming up with new ideas to keep the competition at bay and they plan to bring out a video AWP soon. Richard Ellsworth, finance director of Associated Leisure, who are one of JPM's biggest customers, agrees. "In many people's view they make one of the best fruit machines in the market", he said.

Later this month JPM open a third production plant in Cardiff and it is believed that output will be boosted to 600 machines per week. They serve a big export market and are now starting to use their electronic know-how in other areas. AWP machines, on average, last only two years and while the company's growth this year has been depressed in the home market there is still a replacement demand for about 40,000 machines out of the 75,000 total.

JPM's success could mean profits of around £2.5 million in 1981 according to one City broking expert, but 1982, with output set to total 30,000 machines annually (many of them for export), could be a year of really big growth and possible profits well over £3 million.

It is a good cashflow business, as many machines are pre-sold to the trade. The profits can look enormous—a machine may sell for £800, yet amass takings of up to £5,000 in only one year. Nice returns all round, but how long can it last? Well remember, if you cannot stand the "erk . . . and eee . . . and awww . . ." noises they emit, these AWP machines are almost certainly subsidising the drinks at the bar.

London Evening Standard September 18, 1981



JPM's five year performance

Year ending	Pre-tax-profits (000s)	Turnover	Exports
1975/6	£111	£1,973	£125
1976/7	£110	£2,331	£291
1977/8	£380	£4,020	£471
1978/9	£342	£5,165	£1,418
1979/80	£1,525	£11,717	£4,038

JPM: Staying private or going public?

A Government Minister, a Lord Mayor, senior local councillors and civil servants, a couple of notable Pressmen and a collection of financial moguls and university lecturers, gathered around a table in honour of a coin machine manufacturing company.

It was rather like a Christian treating the lions to tea.

The guests could be reasonably regarded as coming from the ranks of the coin machine industry's most persistent and potent opponents, yet, ostensibly at least, they were united on this one occasion in extolling the virtues of the trade.

Of course, JPM (Automatic Machines) Ltd.—whose number three factory opening was the setting for the usual alliance—enjoy a unique place in their local community. Above all else, they employ a large number of people, the bottom line when the local councillors are choosing between such political expediencies as welfare of the community and satisfying the vociferous minority which frowns on coin machines.

Even the pillars of the local community present

would have struggled mightily to find substance for an attack on JPM. From the rolled-sleeves days of Ferry Road conversions ten years ago to the present-day ultra-sophisticated trade leadership position, the company has followed a path of almost paranoiac sensitivity to image.

The caution has paid off. After all, how many coin machine companies could count on the physical support of so many doyens of the community plus the presence of the political head of their country as they expand their business still further.

The Secretary of State for Wales, the Right Honourable Nicholas Edwards, M.P., shrugged off the problems of Mr. Thatcher's notorious letter to give full vent to his support for JPM's continued progress.

Whether this kind of official blessing will herald a change in attitude towards the industry by local and national government, the media and those who purport to "know what's best" for the country, we doubt. Certainly it could be said to be a step in the right direction.

JPM, like many other companies in the coin machine business, shroud their frustration beneath endless patience and pray for the day that



the world looks on the trade as a perfectly legitimate, heavily, indeed over controlled, industry that makes positive contributions to society and, more importantly, substantial contributions to the Exchequer's purse.

But while JPM's directors were playing the perfect hosts to 100 notables at Cardiff Castle, following the factory opening, they could be excused a little pre-occupation. A pre-occupation that could be infinitely far more important to the trade as a whole in terms of "steps in the right direction" than the right kind of public relations at a factory opening.

The financial Press has recently devoted considerable space to the prospects of JPM going public—and not just public, but a full quote on the Stock Exchange. In layman's terms, that means the first division of the market. Only one other purely coin machine company has achieved this distinction in the past, Associated Leisure Ltd., although others such as Bell-Fruit and MAM Inn Play are part of other, larger groups who are quoted.

JPM coyly commit themselves no further than: "We are actively considering the possibility of going public" and stoutly confine themselves to that while the financial pundits furiously stoke up the fires of speculation rather like the one quoted at the beginning of this article.

Fittingly, however, the company chooses to place its obligations to the trade Press in line with those to the financial Press and was prepared to "speculate" along with us on the implications,

considerations and possible effects of such a decision, should it become reality.

Managing Director Jack Jones and financial director Fred Elton-Jones often tended to forget the prefix "if we do it" in the conversation which followed and as it progressed an air of certainty, of positive intent, could not be denied.

Not unreasonably, they confess that they and their fellow directors felt a need to strengthening the base of the company. "We are taking a fair slice of the UK market", said Jack Jones, "and gearing ourselves up to success in one market all of the time is not, realistically, working, from a strong base. We are healthy in exports, but there is a great deal more ground to be gained in that sector so that if something untoward happens in one market we have always got another one. So spreading the load, diversifying, within the coin machine market, using the technology that we now have, is the first move we want to make.

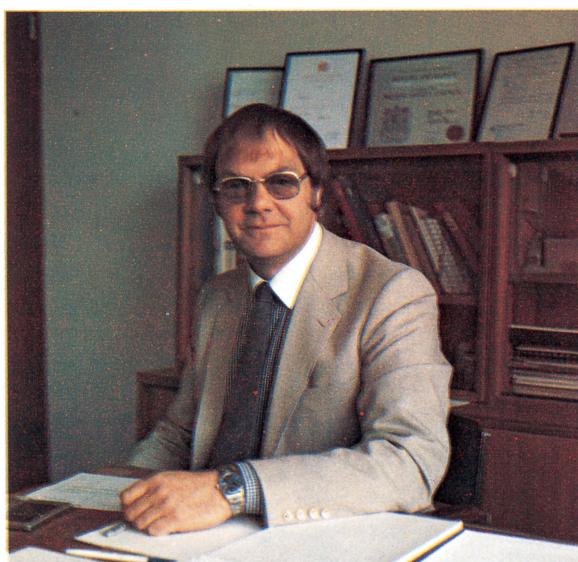
"Secondly, there are the spin-offs from our expertise. During our research and development over the past few years, we have experimented a great deal in the field of micro-technology to the extent that the possibility of other products outside the coin machine industry, become apparent. It is this field that beckons us, making better use of the experience in micro-technology that we have achieved in our quest for better coin machines.

"We have a formidable team here which should make us a force to be reckoned with on the component distribution side. Our contacts with the world of technology are good, working with people like Texas Instruments and Ferranti.

"Exploiting these two major areas, exports and diversification in both software and hardware, which offers us the wider base that we need".

Fred Elton-Jones expanded the point: "We are working with Ferranti in the computer business already. We have already produced for the coin machine industry a data collection system which will certainly one day be widely used in the trade.

"All of these things need to be built on, expanded on, developed still further. Basically at JPM you have a merging to two major fast-expanding industries, micro-technology and leisure. Those are two fields that investors are very interested in supporting at present and we have them both.



FRED ELTON-JONES



JPM Managing Director JACK JONES

"The growth of the company has had its inherent risks. We had a choice of two paths to take. We might have sub-contracted the work out, keeping the overheads lean, refusing to bring in expensive brains—simply sub-contracting, assembling and getting the thing out. There is a logic to that method. It is a small market, we know it, we know the people and its beauty is that the overheads are down and you can respond quickly to changes, you are not financially committed in any one direction. But the disadvantage is that you are always at everyone's beck and call. You have not really got on top of the technology, but you are just buying the technology and paying the royalties.

"Instead we followed the other path, getting into everything from the first concept. In the early days of the micro-processor we brought in the help

of the university, we brought in consultants and researched everything thoroughly. Eventually we decided to build everything in-house. We would build our own software, our own board designs, everything, so that we would have control right up to the stage of manufacturing and assembling boards, choosing the components and above all, understanding the differences between them.

"The result was that our research and development capabilities grew. We had our finger on the pulse all the way along the line, right down at grass roots level. That way we can reduce the risk of mishaps such as a supplier going under, or assemblers suddenly doubling their prices. We were over a barrel to no-one.

"That policy worked well for us. It could have left us hidebound with overheads or trying to do so much that we became all things to all men.

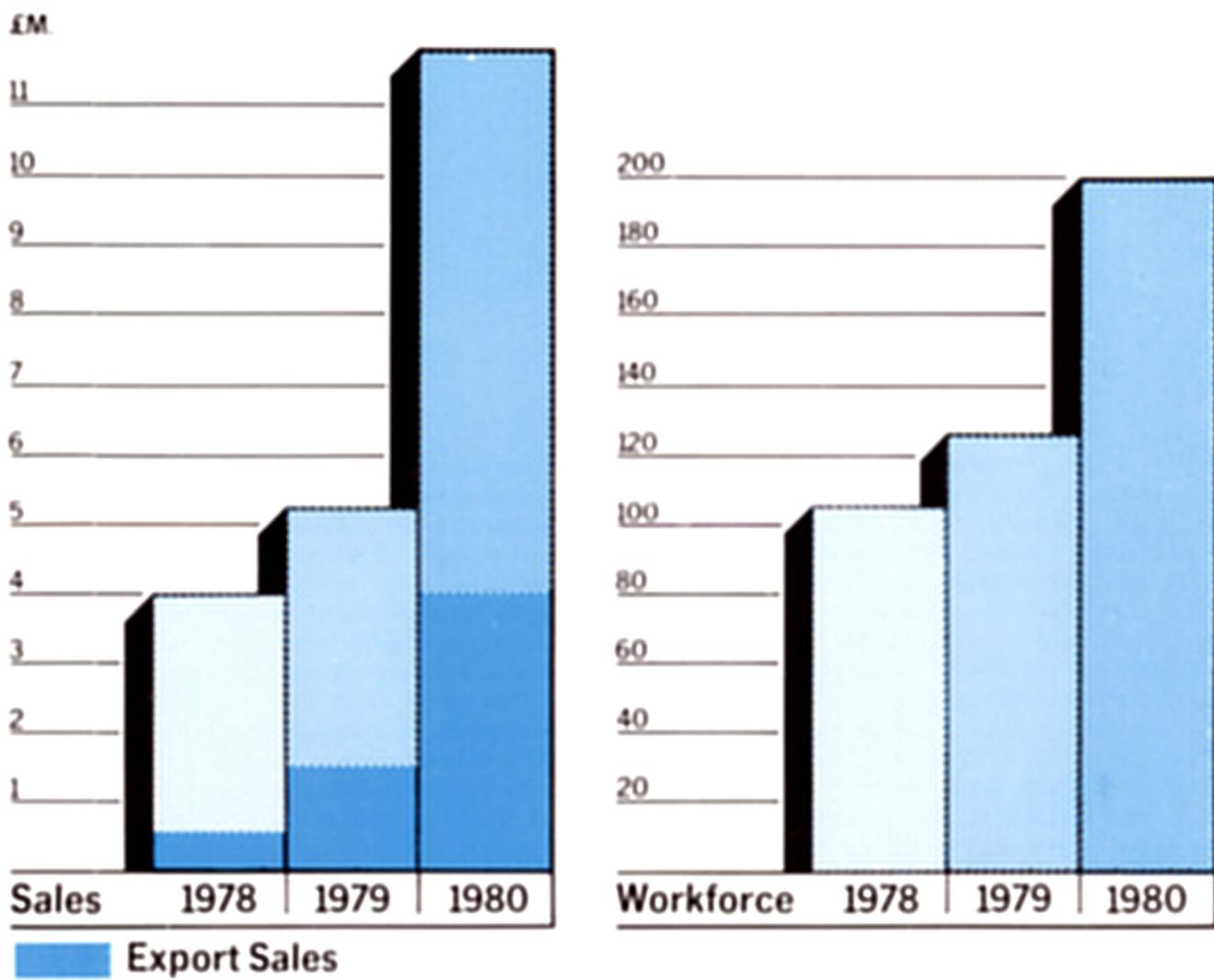
Financial Report

During the year ended 30 September 1980 the company's total turnover increased by 125% over 1979 and exceeded £10 million for the first time. In the same year export sales increased by 185% to over £4 million.

Over the three years ended 30 September 1980 the company's workforce grew from 110 to 196 and productivity in terms of turnover per employee has grown by 69% from £36,500 to £61,600 per employee.

The six months to 30 March 1981 show a turnover of £10.7 million and a workforce of 264 giving a turnover per employee of £81,060.

The success of the company's 'Amusement With Prizes' machines was the initial basis for the growth during the three years to 30 September 1980 and the impetus has been maintained since then by virtue of the quality, reliability and innovative play features of the company's products.



That's the risk you take. We took it and it came off for us".

The company is fully cognisant of the fact that it is on top of the heap in terms of coin machine manufacturing in the UK at present and that it will have to work hard in order to stay there. Indeed, a realisation of this hard fact of life was the influence that led them to consider spreading their product base.

Part of its energy and resources must be expended in consolidating its position, but some must also be diverted into exploring new fields to maintain its momentum.

In the field of exports, Jack Jones sees the potential of the Benelux countries and the United States as an obvious sector for exploration, but there is also the vast field of micro-processor technology.

Ploughed back

"In order to take on new challengers, any company must be appropriately funded for future expansion. This brings us back to the whole concept of going public. If we decided to take the step, we would, in effect, be selling off a proportion of the shares of the company in the public sector. It would not be a majority of the company, and the significant part of the capital raised would be ploughed back into the new projects of which we have spoken".

Before the company took any active steps in the City, they prudently tested the water. "Stockbrokers and merchant bankers appear to like the coin machine industry", said Fred Elton-Jones. "It is part of the leisure industry and that is one of the few growth markets at present. It is profitable, that's the bottom line. It has a good track record and ours is outstandingly good within the field".

The image of the industry, however, tends to suffer from preconceived notions by the media. The recent unsuccessful launch of Subelectro on to the Unlisted Securities Market could not have helped JPM's position and the directors of the company are fully aware of the implications.

But, both Jack Jones and Fred Elton-Jones are equally convinced that the majority of investors are intelligent enough to be able to distinguish the differences between the two companies. It would appear that one of Subelectro's problems with the USM was an admitted downturn in the video game

industry coupled with no forecast of profits. We are surprised that it was permitted to go as far as it did. This is not a reflection on Subelectro itself, but rather of the City, which let Subelectro down in that respect. "We have appointed Rowe and Pitman as stockbrokers, we have used Deloitte, Haskins and Sells as investigating accounts and Robert Fleming as merchant bankers—all world-renowned names in the City".

Both Jack Jones and Fred Elton-Jones concluded with the same view. "The prospects for the company, should we decide to go to the market and should we be successful, are enormous. We have the experience and the practical means of doing a great deal, but the resources to fund those projects will make the world our oyster. There is so much untapped talent in JPM that is yet to be fully exploited", said Jack Jones. Fred Elton-Jones said: "In the past three years we have been moving very quickly. We have built three factories, trebled our workforce and increased our turnover from £5 million to over £20 million. That is an incredible growth in such a short space of time. We now have a few months of consolidation ahead of us. We want to tighten up and improve internal communication because we are well aware of the dangers in outstripping ourselves".

The assessment from both of them is not unfair when the attached figures—extracted from audited accounts—are examined.

Our own conclusion is that JPM will go public. The only decision yet to be taken is when. The innate JPM acute awareness of doing the right thing will make the company careful to choose the right moment. They will balance the City's sensitivity over the influences like Subelectro's unsuccessful flotation and the bad publicity over the VAT case, against the political climate in the City and within the trade itself. At the right moment, we are convinced, they will go ahead. If delays occur, it will certainly not be because the company is not ready for it or has not meticulously prepared itself, nor will it be because they have employed the wrong advisors.

JPM is too cautious for that. Its record is a curious example of ability to neatly balance commercial caution with product audacity and the combination has so far succeeded for them admirably. An adroit handling of the next few months could see the company bring off a major coup, not just for itself but for the entire coin machine industry.

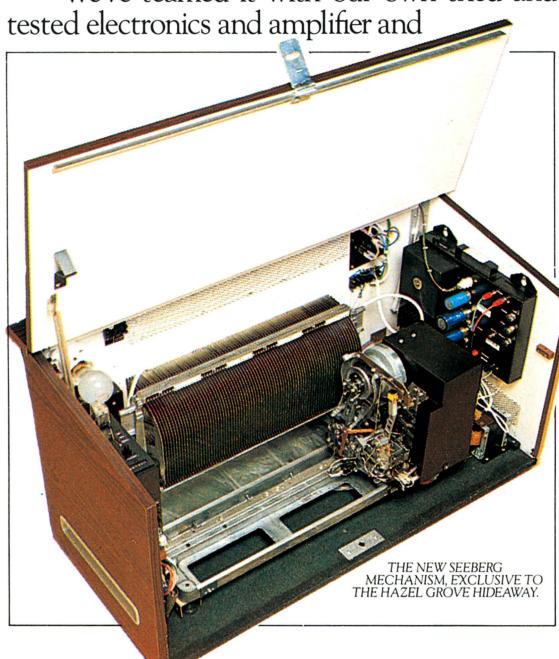




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After being off the scene for a while, the world-famous Seeburg juke-box mechanism is now back in the big time again.

We've teamed it with our own tried and tested electronics and amplifier and

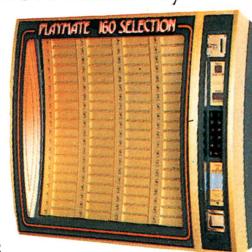


come up with the 'Hazel Grove Hideaway.'

This in turn is linked up to our 'Playmate,' which is already a proven profit earner and the most attractive full display wall box on the market.

The combination of HGM and Seeburg means the highest standards of quality and reliability, and it's all backed up by the full Hazel Grove after-sales service.

So if you're looking for a juke box, we'll go on record as saying that the Hideaway is going to be the big success of the eighties.



THE COMPACT PLAYMATE WALL BOX, WITH FULL DISPLAY FOR UP TO 200 TITLES.

HIDEAWAY

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TWO GREAT GAMES IN TWO CABINET STYLES

MONEY NUDGER

This new 10p game provides a **Money Nudger** feature with each way nudge facilities where the player has the choice of playing the nudges indicated, collecting the nudge cash value shown or gambling the number of nudges. After gambling the Money Nudge feature, the player still has the choice of playing the nudges then shown or collecting the nudge cash value. The game provides a **No Lose Gamble** feature which is automatically started by the 27 way criss-cross feature. Awards of 40p, 80p, £1, £1.60 and £2 are available or the player has the choice of collecting the 80p criss-cross award. Normal 2 and 3 of a kind with bar symbols.



Both games are available in 2 cabinet styles with Data retrieval security systems – the Alca Slimline fruit or the Alca Compact fruit.

These 10p AWP machines are built to the highest standards and incorporate the latest in microprocessor design, easily accessible to the service engineer. The system has self test facility and security system. Audio tones accompany each playing mode.

Each Way Nudge facility is provided.

10p one game, 10p token for one game. 50p E15 solid state changer gives 40p change and one credit.

Payouts up to £1 in cash:
Over £1 to a maximum of £2 in tokens.

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style of
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ALCA

TECHNICAL INFORMATION

ON THE INTERPLAY MICROPROCESSOR SYSTEM

The Interplay MPU unit has been designed as a general purpose gaming machine controller.

To this end it is not tied to any reel unit.

The basic system provides:

1. 56 general purpose outputs.
2. 32 general purpose inputs.
3. Up to 255 tone frequencies.
4. Up to 6K Bytes of EPROM program storage.
5. 1K Bytes of RAM working storage.
6. A mains driven real time clock.
7. Anti-cheat circuits.
8. An expansion facility.

OUTPUTS

Each of the 56 general purpose outputs can sink up to 1 Amp.

It can drive directly:

Lamps – Meters – Reel mechs – Credit displays etc.

It can drive via external power drivers AC loads:

Payout slides – Coin lockouts – Reel mech solenoids etc.

INPUTS

Each of the 32 inputs can be used to input information from the outside world to the microprocessor.

It can interface to:

Reel mechs – Button switches – Coin mech switches – Programming switches.

EPROM MEMORY

Up to 6144 bytes of EPROM memory (2716) may be fitted to the board.

The average AWP machine takes up less than 2K of memory.

RAM MEMORY

The 1024 bytes of RAM memory (2114) fitted to the board are used for data storage and working memory.

The average AWP uses 150 bytes of this memory.

TONES

Up to 255 different tones can be generated by the onboard tone generator and fed to the external speaker via the onboard 250mW audio amplifier.

ANTI-CHEAT

Two different anti-cheat circuits are built in:

1. Mains failure detector.

This circuit detects 1 cycle of the mains being missing. So anybody switching the unit power on and off in an attempt to cheat the machine will simply reset it.

2. The interrupt watchdog.

This circuit requires the microprocessor to reset it every 150mSec. If it does not it resets the microprocessor.

EXPANSION FACILITY

An expansion facility is provided to allow daughter PCB's to be plugged into the main board.

Expansion boards planned are:

1. Output expansion, to increase the number of outputs.
2. Non volatile memory for credit and meter data storage.

SUB-BOARDS

There are 2 sub-boards available at this time:

1. Power Driver board.

This board interfaces the DC drives of the main PCB to drive large AC loads such as Payout mechs etc.

Each power PCB has 6 Triac's to drive up to 6 AC loads.

Each AC load driven takes up 1 DC output.

2. Credit display.

This board provides up to 4 digits of remote numeric information display via LED display's.

The first credit display attached uses 3 general purpose DC outputs.

To add a second credit/information display uses only 1 more DC output.



CONRAD HILTON HOTEL • CHICAGO
OCTOBER 29-31, 1981

Leo Droste scores as AMOA arbitrator



LEO DROSTE

THERE are some major new influences affecting the 1981 Amusement and Music Operator's of America annual convention, due to be held from October 29 to 31 at the Conrad Hilton Hotel in Chicago.

It is the last time the show will be held at that particular hotel; it will have a new organiser; and the products on display will tell us whether the American industry has shaken off the influence of the Japanese dominance.

The Conrad Hilton Hotel is due to be pulled down soon after the show ends. For that reason, the American association is putting it into Chicago's pristine new Regency Hyatt Hotel next year, and move it to New Orleans for 1983. During those two years, a new Hilton Hotel will be built, convention hall as well, and the show will return there in 1984.

Moving the exhibition to the Regency Hyatt will make little difference next year, except in the layout. The Association has its headquarters around the corner from the Hyatt and keeping the show in Chicago—the traditional home of the American coin machine manufacturing industry—will cause little in the way of “waves”. Moving it to New Orleans in 1983 will cause few more problems. The Rivergate Centre in the Southern “capital” is well known to the coin machine trade, having proved itself an excellent venue for the annual Parks Show. New Orleans is also an attractive city and will make a welcome change for the regular AMOA visitors who have seen it all in Chicago so many times before.

Next year's move to the Hyatt was the change that initially created the most problems for the Association. It was originally planned to put the exhibition into Caesar's Palace in Las Vegas, a move welcomed by the Europeans in particular, but it brought about a violent reaction from some of the would-be exhibitors, including most of the major companies involved in coin machine manufacturing in the United States.

In short, they were sensitive of Las Vegas's gambling connotations. The US industry has always regarded itself as completely separate from the gambling industry—rather as the British trade regards vending as something out of its sphere of operations. At the same time, the issue was exacerbated by the growth of video card games in the US market, for which there was some evidence of abuse, bringing in gambling in states where it was illegal.

Conscious of this, and its image of clean-living, family entertainment, the US manufacturing industry rebelled at the prospect of the show going to Las Vegas and made it quite clear that if the show did go there, then they would not participate.

AMOA took the threat in its stride, officially discounting the opposition, but eventually shifted the venue back to Chicago—to the Hyatt—on the grounds that it sympathised with the complications created by the “grey” area video card games, but stoutly discounting any suggestions that it had been frightened away from Las Vegas by the “clout” of the big companies.

Whatever the influences at work, the Regency Hyatt was chosen for 1982 to the relief of everyone involved and so far no-one has violently opposed the move to New Orleans in 1983; indeed, many have welcomed it on the grounds that it is time that the United States' main coin machine show was moved to another part of the country.

At the centre of all of these problems, now happily solved, is Leo Droste, Executive Vice-President of AMOA and, in fact, head of the organising team for the coin machine show. Leo Droste had some involvement in the 1980 exhibition shortly after he joined the organisation, but it was as assistant to Fred Granger who had been organiser of the exhibition for many years.

Leo Droste was being introduced to the Association's work and the exhibition gently, ready for Fred Granger's retirement, which came shortly after the end of the 1980 show.

Leo's considerable experience at trade association work showed as he wrestled with the crop of problems that grew up around the venues for the following two years and he overcame them satisfactorily to get down to the real work of arranging the 1981 show, almost forgotten in the furore of the 1982 proposals.



AMOA pressed for

Why the insistence to hold the show in Chicago instead of following up on the move to New Orleans? Why not move it then to California, the home of the video game? "The show has always been held in Chicago because for years it was a comparatively small exhibition and all of the manufacturers who amounted to anything were based in the Chicago area, so it cut down on their overheads to hold it locally", Leo Droste said. "Apart from that, Chicago is a good centre because it is a transportation hub of the country". He did concede, however, that the growth in importance of the West Coast as a centre of coin machines could lead to pressure on the AMOA Board to consider moving it to California some time in the future.

Direct comparisons between the three major coin machine exhibitions, ATE, AMOA and the Tokyo show, are probably unfair, because they serve different markets with different product influences. ATE, for example has a high proportion of gaming machines because the British market allows them. This will tend to give the ATE more scope and therefore undoubtedly makes it the largest international exhibition with 110,000 square feet and 180 exhibitors projected for January.

The Japanese show tends to permit thousands of members of the public through its doors, traditionally, and therefore it could claim to be the largest in terms of attendance, while its floor area and number of exhibitors trails the other two shows.

AMOA had 80,000 square feet last year, 15,000 more than Tokyo, with 152 exhibitors and 80 in Tokyo. The attendance figures for the British and American shows were 10,000 and 7,200 respectively. It is notable that over 1,000 overseas visitors attended the American show last year.

Rivalry between the exhibitions is not really there, however, each set of organisers regarding their exhibition as basically a comestic one, while they are nevertheless keenly aware of the international importance each show holds.

It is more a commercial comparison that comes into the reckoning as each year's crop of exhibitions gets under way.

The dominating factor of the past four years has been the profound influence of the video game, initiated by Japan, exploited by the West and almost killed off by Japanese and Taiwan copiers.

In effect the video game put the Tokyo exhibition on the market. The growth of the Japanese micro-computer industry and their inscrutable ingenuity at devising games, coincided with something of a recession in the US games industry. A stretching of funds, coupled with a foray into the home video game market—and therefore a channelling of research and development funds into that market, left a dearth of new ideas for coin-operated games.

The result was an immediate takeover in terms of games influence by the Japanese three years ago, which reached a height two years ago, at which time the American industry was largely building under licence from Japanese innovators.

move to California

Notable exceptions to this were a small group of companies headed by US giant Atari, who insisted on their own research programme and consequently continued to hold a prime place in the market which has undoubtedly led them to a place of prominence among US manufacturers.

Last year's AMOA and Tokyo shows displayed a convincing argument for the view that the trend was changing. The Japanese market was slowing down, the ideas were proving inadequate to capitalise on the overwhelming success of Space Invaders and American manufacturers were back in the saddle with new games devised by their own research and development people. The influence had not quite turned full circle, but it is not unreasonable to suggest that at the 1981 show at the end of October, we shall see the boot back on the American foot.

That, of course, pre-supposes that the Japanese exhibition does not provide any big, new breakthrough. At the time of writing, it is difficult to see what that might be.

In video, therefore, we are forecasting a major American revival despite the fact that in international markets the video game is showing obvious signs of having peaked in influence.

What else for AMOA? There is plenty of evidence to suggest some major new developments in the juke box industry, still traditionally the Cinderella of coin machines. Our sources predict something from the revitalised Seeburg organisation—now safely under the wing of the very imaginative and vital Stern Electronics—that will set the juke box industry back on its heels. Adjectives are very easy to come by in the coin machine trade, but the apparent application of video techniques to the juke box, which is what we gather Seeburg is producing, will for once justify the wild claims of the marketing men.

We will be curious to see what happens to the humble pin table, for so long the whipping-boy of the video game, at a time, lamentably, when pin table techniques, styling and ideas have hit a new peak. Most manufacturers of the pin table are prepared to admit that sales are down by anything up to 60 per cent over the past three years. The pin table has been the piece of equipment most undermined by the success of video. Whether it will recover fully is dubious, but the manufacturers must be given credit for their persistence and their ingenuity in producing equipment at the highest level.

Between October 1 and January 31, there are four months containing the three major exhibitions and a whole crop of other international events. It is those three main shows that will dictate the way the coin machine industry will go in the next year or two.

Video games are almost certain to wane in influence to some degree. What will replace them on an international level will depend very largely on the individual country. ATE will probably go back to being a fruit machine exhibition for the first time in several years, while Tokyo will remain largely video but with a gradually stronger fruit machine influence. Chicago will probably be dominated by no one particular piece of equipment, but will probably turn up one or two really surprising major innovations in video games, pin tables and juke boxes.

Whatever, it is going to be a fascinating time to be around in the coin machine industry.



Location—Seventy

International

1981

JAPAN EXHIBITION—Harumi Centre, Tokyo: October 6 to 8

Japan Amusement Trade Association, 9th Floor, Yasuda Seimei Building,
8-3, 1-Chome, Shibuya, Shibuya-Ku, Tokyo 150, Japan

ENADA SHOW—EUR Palazzo dei Congressi, Rome: October 15-18

Associazione Nazional Sezioni Apparecchi per Pubbliche Attrazioni
Ricreative (SAPAR), 00161 Roma, via di Villa Patrizi 10, Italy

AMOA SHOW—Conrad Hilton Hotel, Chicago: October 29 to 31

Amusement and Music Operators Association, 35 East Wacker Drive,
Suite 1940, Chicago, Illinois 60601

PARKS SHOW—Kansas City, Bartle Hall: November 19 to 21

International Association of Parks and Attractions, 7222 West Cermak
Road, Suite 303, North Riverside, Illinois 60546

INCOMAT—Ausstellungszentrum Salzburg: November 25 to 27

Verband der Munzautomatenwirtschaft, 1200 Wien, Wallensteinstrasse 5,
Austria

SADA—Palacio de Congresos y Exposiciones, Torremolinos:

November 26 to 28

Interalia SA, Avda. Diagonal, 474 Barcelona 6, Spain

SCOTTISH PREVIEW—Normandy Hotel, Renfrew:

November 30 to December 1

Ruffler and Deith, 127 Wandsworth High Street, London SW18 4JB.
Phone: 01-870 5238

Trade Shows

FORAINEXPO—Le Bourget, Paris: December 8 to 11

M. Francoise Regnier, 8 rue de la Michodiere, 75002 Paris, France.
Phone: (1) 742 92 56

1982

HORECAVA—RAI Exhibition Centre, Amsterdam: January 4 to 7

RAI Gebouw BV, Europaplein 8, 1978 GZ Amsterdam, Holland.
Phone: 020 5411 411

ATE—National Exhibition Centre, Birmingham, England: January 18 to 21

British Amusement Catering Trades Association, BACTA House,
122 Clapham Common North Side, London SW4 9SP. Phone: 01-228 4107

IMA—Messegelände, Frankfurt/Main: January 21 to 24

Heckmann Ausstellungen KG, Kapellenstr. 47, D-6200 Wiesbaden,
West Germany. Phone: 06121 524071

NORTHERN SHOW—Blackpool, England: February 16 to 18

Jack D. Rose (Exhibitions) Ltd., Exhibition House, 6 Warren Lane,
London SE18 6BW. Phone: 01-855 9201

MILAN FAIR—International Business and Meeting Centre, Milan:

April 14 to 23
Fiera Milano, Largo Domodossola 1, 20145 Milano, Italy

COIN-OP '82—Leopardstown Racecourse, Dublin: March 31 to April 2

SDL Exhibitions Ltd., 68 Fitzwilliam Square, Dublin 2, Ireland.
Phone: Dublin 763871

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The form must be completed by each visitor. If more forms are required a photo-copy of this one is acceptable. Minors under 18 will not be admitted. Exhibition entrance only is free.



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 Exhibition visitor (free)

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In recent months, both in Coin Slot and Location, we've given a good deal of coverage to legal rights.

The law plays an increasingly important role in business today. Worker employer disputes, copyright, contract—you name it and the lawyers have got their fingers in the pie somewhere along the line.

The only problem with lawyers is that they're expensive. And in these circumstances it's one thing to know your legal rights and entirely another to be able to stand up and fight for them.

Without doubt legal costs are the biggest single deterrent when it comes to considering a course of legal action. The cash register on even a run of the mill High Court case clocks up around £1,000 a day!

Despite this the law, though costly, is necessary. And at times legal action can prove unavoidable. It's in these circumstances that a new type of insurance is catching on in Britain. And it's a form of cover many companies in the amusement industry would do well to consider.

It's insurance which offers indemnity against legal expenses if a dispute of any sort does break out and the only course is to resort to the law to unravel it. Already this kind of insurance is highly popular in Europe.

It's not new in Britain, having been in existence in one form or another for something in the region of six years. But it has not been until the past couple of years that it has really begun to catch on.

Now, as legal costs continue the upward spiral at an alarming rate experts in insurance predict it is going to be one of the major growth areas for their industry in the 1980s.

The three leaders in the field offering this class of cover are: DAS Legal Expenses Insurance Co. of Bristol, Hambro Housley Legal Protection Ltd., and the Economic Insurance Co.

Their cover, and the services they offer vary. There are, however, many broad similarities. They all, for instance offer worthwhile protection against the heavy costs that can be run up in legal action over matters such as employment contracts, damage to property, breach of general contracts, prosecution of employees and prosecution for breaches of regulations such as Weights and Measures and Health and Safety at Work Acts.

The law important

Not only do they cover against the cost of lawyer's fees. They also cover the often high expense of sending employees to court on cases involving other employees. And there are provisions covering, to varying degrees, compensation awards against policy holding companies.

One of the attractions of these policies is that they come either as packages giving all aspects of cover, or can be split to give cover in just one, or several specified areas.

Hambro Housley also tie in a comprehensive consultancy service enabling policy holders to obtain instant legal advice the moment a problem crops up. They provide documentary guidance for policy holders and a seven days a week round the clock advice service by which policy holders can get instant guidance by making a 'phone call.

Price-wise the cost of a policy of this nature is modest and therefore seems an excellent investment. Full cover for a medium sized company would be around the £200 mark. Or, put another way, roughly the same cost as insuring a director's car with full no claims bonus taken into account!

In an industry such as ours, where legal problems do frequently crop up it's a form of insurance that many readers might find well worthwhile considering.

and its increasingly role in business . . .

WITH international competition in the amusement industry what it is today the chances of English manufacturers being faced with the need to take a foreign competitor to court are fairly high.

One of the problems with suing a foreign company, however, is how to get your cash if you win your case. If the person or company being sued is sharp enough they may decide to remove any assets in Britain out of the country on the reckoning that then, even if they lose the case, it will not be possible to enforce any damages order against them.

There is, however, a legal ruse designed to prevent this happening if the party suing is quick enough. And it can also, following an Appeal Court decision last year, be used to stop any British based defendants to court action channelling their cash out of the country to try and avoid a future court order.

With the aid of a 'Mareva injunction'—named after the case, a shipping action in which such an order was first granted—it is possible to freeze all or part of a person or company's assets in this country until the outcome of pending litigation.

This way those mounting the action can be sure that if their claim is successful there will be money available in Britain at the end of the day to meet any award the courts might make.

The recent Appeal Court action in which the scope of this kind of court order was broadened involved two London businessmen who are being sued. The court froze £34,000 of their assets in Britain.

Lord Denning said that where there was a danger of English based defendants absconding or removing assets it was appropriate to make such an order. He said that whether they were British rather than foreign based made no difference. Assets could be frozen in either case.

In other words, if you do get entangled in legal action with anyone who you suspect might try to 'do a runner' you can always take steps, such as those outlined here, to safeguard your position.



"Qantas. What a name for an airline?"

"On second thoughts, I don't need them by any name.

"Because I am an Australian who likes peace. And quiet. And a comfortable branch in a friendly tree.

"Which is the way things were.
But no more."

"Now I get all those visitors who call me cute. I am not cute. I am a koala.

"And who's to blame? Qantas, that's who.
"Because they fly those 747 s."

Day and night they fly them from a place called London.

"Oh well, despite my best efforts, you'll probably fly Qantas to Australia.
Most people do."

"But speaking for koalas, I find Qantas entirely too much to bear. For a bear!"

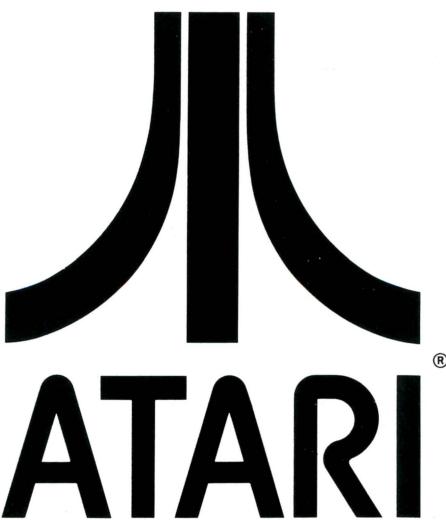
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COPYRIGHT law is to the forefront of the minds of most connected with video manufacture today. Exactly where copyright lies in videos and the effectiveness of our laws to enforce such copyright in order to stop machine piracy is one of the big areas of concern throughout the industry.

But, with all this emphasis on copyright it is possible to forget there are also other important legal safeguards that can be used to prevent copying.

There is no question about the vital protective role played in the machine industry today by copyright controls, even though at the moment the waters of this area of law and its application to videos are somewhat muddy. But let's not forget the patent provisions as well.

In a different way to copyright they are just as important to those engaged in the development of new machines and equipment. They can have a vital role in the fight to stop piracy.

With the glare of publicity centering on copyright because of recent court cases involving alleged video piracy, however, patent protection is, if not less thought about, at least less talked about.

For this reason it's worth having a closer look at the patent laws in general terms to see just what sort of protection they afford, what can be patented and the procedure for taking out patents.



Anyone new to the industry certainly needs an awareness of patent provisions. And there are no doubt plenty who are not new who could do with their memories being refreshed.

The aim of both copyright and patents is, in a nutshell, to protect a person's rights in something they have created or invented.

There are, however, fundamental differences between the two, both in what they apply to and the means of gaining such protection. Copyright is used to protect literary and musical works, artwork, sound recording and films, for instance. And, in the context of video manufacture it appears to be applicable to micro-chip programmes and audio visual displays.

Patents on the other hand are taken out to prevent copying of someone else's 'invention'—a newly thought of device or process.

Copyright protection is cheap to claim. The international copyright symbol © followed by the name of the person laying claim to copyright of the material can be sufficient with no need to register the claim anywhere. But the lack of documentation can, of course, create problems when it comes to proving a copyright claim.

Obtaining a patent, however, is a fairly costly process. But it is officially documented by the Patent Office, which is a part of the Department of Trade. In the case of a dispute there is, therefore, more back-up material as evidence available for the patentee to use to prove his claim.

The aim of taking out a patent was well summed up by a leading law lord, Lord Diplock, in a dispute which reached the House of Lords last year.

PATENTS—the cost and consequences

"A patent specification is a unilateral statement by a patentee in words of his own choosing. It is to those likely to have a practical interest in the subject matter of his invention. It informs them what are claimed to be essential features of the new product or process for which the letters patent grant a monopoly", said Lord Diplock.

This particular dispute was over a metal lintel used in building work and is a fair example not only of the sort of material that can be patented but also the view of the law on how far patent protection goes.

A company produced a near identical lintel to the patented one. But when accused of patent infringement they claimed that because the angle of a back plate on theirs varied from the back plate angle in the patent specifications there had been no infringement.

Lord Diplock and four other law lords ruled that despite this variation from the patent specifications there had been infringement. All patent disputes are, however, open to hot dispute. It's worth noting here that prior to the House of Lords decision three Appeal Court judges had decided the difference in angle was sufficient to avoid the claim of infringement.

Another classic patent action of the 1970s revolved round the 'workmate' folding work bench. This and the lintel are two practical examples of the type of material patented.

In the amusement industry Cromptons some years back took out patents in relation to their 'pusher' system. They also patented the jackpot pay-out units on their Derby Racer machines.

There are more recent examples of the power of watertight patents. The Dransfield Novelty Company's patent on the Nudge feature for fruit

machines was the subject of a great deal of legal expense by their competitors when they tried to crack it. They all failed, and now most of the manufacturing companies in the industry pay royalties to Dransfield for the rights to use it.

Similarly, the pages of *Coin Slot* have recently been full of patents warning notices by video games manufacturers from not just the UK but Japan and the United States as well, attempting to prevent the pirating of their games. Notably, the introduction of the video fruit machine also brought a polite warning from the patentees, Bell-Fruit Ltd.

Before running out to try and obtain a patent, however, it is first necessary to take an objective look at the value it is going to have if obtained. One of the reasons for this is because, as said earlier, patents cost a good deal to obtain, and there are top-up charges to keep them operative for their 20-year life span.

Taking out the initial patent and top-up charges alone can run up a bill of several thousand pounds.

Far more costly, though, is the expense of legal action to protect patent rights. This can be phenomenal—the metal lintel case for instance involved High Court, Appeal Court and House of Lords hearings and the bill for all this at the end of the day does not bear thinking about.

Experts 'guesstimate' the cost of fighting through the courts to uphold patents rights in an average case would work out at around the £60,000 mark. In these circumstances anyone taking out patents would do well to consider insuring against legal costs should a dispute arise.

With the cost factor in mind, before going to the trouble and expense of obtaining a patent, first



‘Be warned,
like any area
of the law
the procedure
for taking out
a patent is
a complex one
and best handled
by experts’

Think of

consider whether, if obtained, a legal fight through the courts to protect it, should the need arise, would be worthwhile and affordable.

This can best be gauged by assessing the worth of what is to be patented. This value, of course, comes down to terms of hard cash, possibly what the person with the patent will earn from marketing his own brainchild himself. Or perhaps what he will receive by allowing it to be produced under licence by others and taking licence fees.

Assuming, however, he decides patent protection is necessary and currently these are around the quarter of a million effective patents in existence—how does he go about obtaining his patent?

The first step is to obtain forms from the Patent Office, which currently handles 800 engines a week. This is at 25 Southampton Buildings, London WC 2A. Using these forms a patent application then has to be filed to this office. It really goes without saying here that this application needs to be made before the new device or process is actually in use, otherwise a pirate could well jump in before protection is given—even to the extent of trying to obtain a patent of his own if he is unscrupulous enough.

Patent applications can be made by individuals. But, be warned. Like any area of the law, and probably more so than most, the procedure for taking out a patent is a complex one and best handled by experts.

For this purpose there are special ‘patent agents’ who, though they charge substantial fees for their work, know exactly what they are doing and will ensure that the patent application is properly handled. It’s really a question of ‘horses for courses’. Anyone wishing to contact such an agent should get in touch with the Institute of Patent Agents at Staple Inn Buildings, London WC1V 7PZ.

the implications

Eventually exact details of what is sought to patent will be required and detailed surveys will have to be made by Patent Office officials. If everything goes smoothly the patent is then granted and is valid, subject of course to the outcome of any later dispute that might occur, throughout the UK.

The grant of a patent is made known through an advert in the *Official Journal (Patents)* and details of it are also filed in the Patent Office Library.

Once a patent is in force its holder has various legal machinery open to him with which to protect that which is covered by the patent.

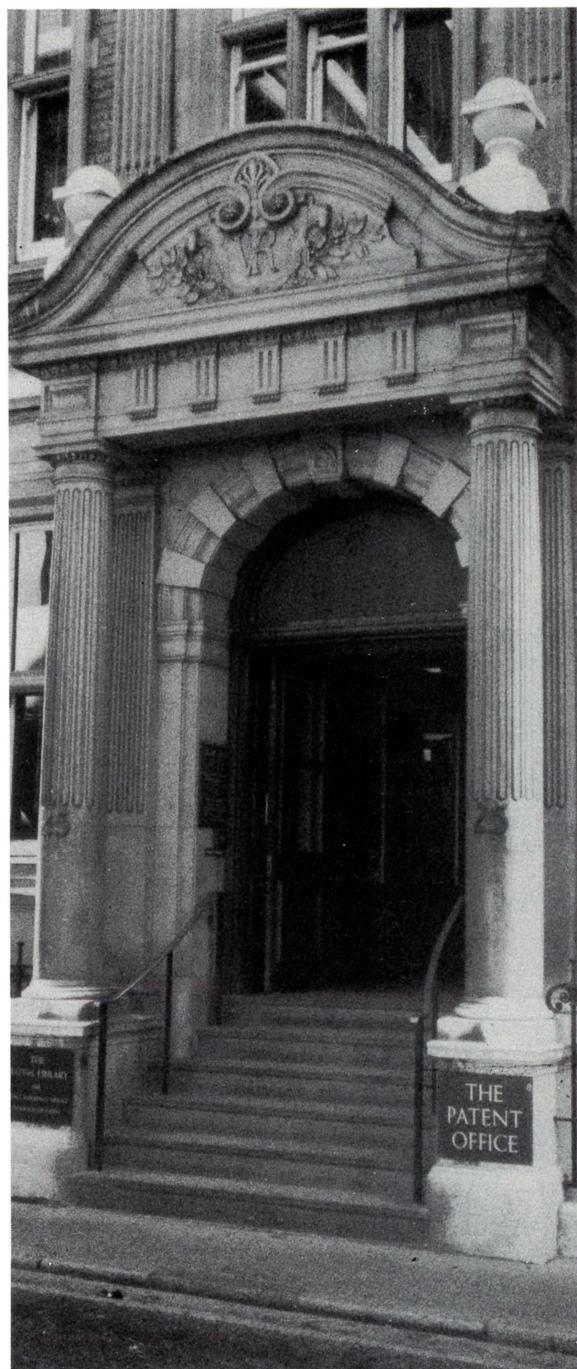
This includes the use of court injunctions to stop instances of copying. And anyone who does copy can be ultimately sued for damages. These protections are similar to those applicable to copyrights.

In reality what very frequently happens, both in copyright and patent actions is that the initial banging of legal drums is sufficient to put an end to infringement. Many such infringements end with the grant of an early interim High Court injunction banning copying until full hearing of claim for damages.

Often it is the grant of such an injunction, or the giving of an undertaking to stop copying that is sufficient remedy for the victim of copying and the claim for eventual damages never gets to court.

At the same time, however, if someone accused of piracy does decide to cut up rough and contest the action it's worth repeating again that the costs incurred in such a fight can be massive.

So, by all means if you reckon you have something worth patenting go out and obtain a patent. But pause for thought and think of the implications and weigh the value of such a patent first.



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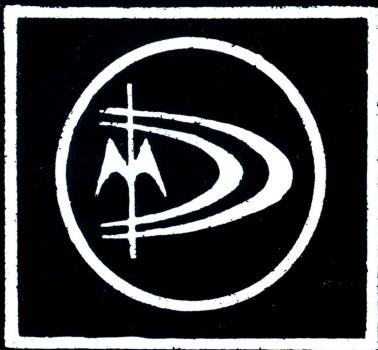
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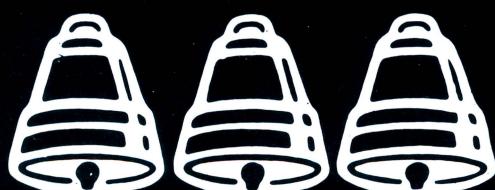
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The Archaeology of the Fruit Machine

by
Nicholas Costa

The treasure

The first three-reel automatic payout ‘slot’ or ‘fruit’ machine was made in 1905 by a Bavarian immigrant to America named Charles Fey. Since that time it has come to be regarded as the archetypal symbol of coin-operated gambling, yet it remains historically as only one of a large variety of such machines.

Its genesis is often inaccurately presented as the singular achievement of one man. However, little regard has been paid until recently to the historical context of its creation, an attitude which has in the past helped to create the diverse and often conflicting stories relating to its invention and early development.

It comes as no surprise therefore, on reading earlier accounts, to be presented with a choice of dates regarding the year of its initial manufacture (viz. 1886, 1889 or 1895) all of them wrong. It is a confusing choice, made even more so when one analyses the contemporary scene of the late 1880s to mid-1890s and realises that if it were an invention of this period, it would not only have had to be a number of years ahead of any other design of coin-operated gambling machine, but would also have remained surprisingly uncopied for some ten to 20 years, until the version made by the Mills Novelty Company of Chicago in 1909.

Before going on to give a brief outline of the development of coin-operated gambling machines prior to the introduction of the Fey machine in 1905, it would be of interest to note the other major flaws in the traditional stories regarding its invention. The most commonly reported version relates that the machine was invented by Fey in 1895, then a youthful 29 year-old in his small San Francisco workshop.

The reality was very different. Fey established his firm of Chas. Fey and Company in the early 1890s as suppliers of electrical goods. By 1895 he had begun making coin-operated machines on a very small scale, initially as a supplement to his main line of business. The successful marketing of such machines, at that time, was dependant upon a

manufacturer having a number of operator routes where his machines could be placed, usually on a share-profit basis with the owner of the location. These Fey did not manage to firmly establish until at least 1899.

The other major flaw in the traditional story is Fey’s age, having been born sometime around 1858 he could hardly have been aged 29 in 1895. The reality is again very different. The image of the brilliant young inventor, as we shall see, has to be replaced by the image of a mildly successful business man, who in 1905, in his middle 40s, begins manufacturing on a very small scale an improved type of coin-operated gambling machine. A machine which, unlike the traditional stories, owed the greater part of its existence to the efforts of earlier coin machine manufacturers.

Patents

The decade of the 1880s had seen an ever-increasing number of patents granted in the coin-operated field. Almost anything which could be made to work by the insertion of a coin was either made or contemplated. By far the largest number of patents taken out during this period were for vending machines. However, this was an area fraught with difficulties.

The main problem lay in the construction of the coin mechanism, which at this time was of comparatively simple design. Potential customers soon realised that in many instances machines would respond just as happily to a button, washer, or a good thumping as to a coin. It was to prove a serious problem which was to elude adequate solution for a good many years.

of the 1906 holocaust

The lack of an efficient coin mechanism did not, however, hamper the development of gambling machines, since an individual player was never offered any more than a part of the collective sum played into the machine.

It is for this reason, therefore, that the gambling machine, especially in the United States, with its then relatively liberal gaming laws, developed and flourished to a greater extent in the following decades.

There was little impetus during the last two decades of the 19th century to produce gambling machines whose principles of play were entirely new. The main aim was to produce a machine which was fundamentally an automatic adaptation of an already existing game. It is within this context therefore that one must see all the early automatic gambling machines. The innovation of the three-reel automatic payout 'slot' machine in 1905, which at first sight would appear to have no direct gaming equivalent, was in fact the culmination of a refining process begun as early as 1889 with the small scale introduction of a device known as the Card Machine.

It was, as its name suggests, an attempt to mechanise a game of cards, specifically stud poker, a gambling game which had been popular in the United States since the 1830s.



The 1895 Fey Liberty Bell and below it the 1911 Mills Liberty Bell Gum-Fruit.

In 1891 the newly formed firm of Sittman and Pitt, of Brooklyn, New York, began marketing their version of the machine, known as the Little Model Card Machine. Although not the first of its kind it soon became, through successful sales and promotion, the first nationally popular automatic gambling machine in the United States, remaining in continuous production until 1910.

The solution to the problem of how to mechanise a game of cards that these machines adopted was relatively simple. A number of playing cards were attached edge-on to a drum, so that they flipped over as the drum spun. Since a hand of poker requires five cards, five drums in line were adopted, only one card on each drum being allowed to show at any one time. To further approximate the game, each drum was made so that it could accommodate ten cards, giving a total of 50, just two cards short of a full pack. Insertion of a coin enabled the player to operate a lever which would cause the drums to spin and then stop, as a mechanical equivalent to the shuffling and dealing out of a hand of cards. The principles and mode of play that the Little Model Card Machine helped to establish were within a few years being copied by other manufacturers.

Playing cards

The one significant change that this type of machine underwent in the 1890s was the substitution of actual playing cards, which were flipped over as the drums spun, by strips of paper which were stuck on to the drums, upon which were printed cards, or card symbols. Probably the first to adopt, and certainly to popularise this system, was the firm of Leo Canda of Cincinnati, Ohio.

Unlike the later Fey machine, five reel 'card' machines had no automatic payout. Instead, a reward chart on the machine would list the awards, in goods or cash, that the player could obtain from the operator if certain hands appeared. The payout on this type of machine was never automated, and as a consequence it remains historically classified as a Trade Stimulator rather than a gambling machine. By the end of the 1890s there was technically no reason to prevent the incorporation of an automatic payout on this type of machine. The stumbling block appears to have been a lack of foresight on the part of manufacturers rather than a lack of technical knowledge.

Developments in this area were in fact synchronous with the introduction of the five reeler. Indeed as early as 1889 the Eureka Box Company of Baltimore, Maryland, began manufacturing the Eureka. It was a counter machine whose main feature was a visible jackpot, which filled at random as coins were played into the machine. The weight of the coins would eventually cause the jackpot container to tip and drop the coins into the payout cup. However, the machine was easily defrauded, a good shaking would make it pay out as gladly as if the player had won by more legitimate means. Needless to say the Eureka was a commercial failure.

Simplicity

In 1892 the John Lighton Machine Company of Syracuse, New York introduced the Slot Machine, later known as the 3 for 1. Despite its simplicity, the payout on the 3 for 1 represented a major advance upon that of the Eureka. It was mechanically controlled and proved reliable. The 3 for 1 belonged to a class of gambling machine which was derived from earlier fairground 'drop-case' or Tivoli games. In this instance a nickel dropped into the machine had two possible courses, to travel either into the cash box or along another path which enabled it to trip a lever which would automatically deliver to the player his own coin back as well as two others from an interior runway. The machine's initial success ensured that it was widely copied, as a consequence establishing the principle of a fully automatic payout.

As the decade progressed these relatively simple mechanisms were gradually refined, and to no greater extent than in the Pin Wheel machines (automatic wheels of fortune) which, by the turn of the century, had become the most popular form of automatic gambling machine in the United States. As early as 1877 Edward J. McLaughlin of New York had patented and manufactured a small countertop machine known as the Guessing Bank. Insertion of a coin would cause a pointer to spin around a numbered dial. The player's objective was to call out in advance the number at which he thought the pointer would stop. A correct call would entitle him to a house-paid award amounting to five times his original stake. It remains to date the oldest known machine specifically made for gambling by means of the insertion of a coin.

In 1893 the Griswold Manufacturing Company of Rock Island, Illinois, began to manufacture a machine appropriately named as the Wheel of Fortune. This consisted of a vertically disposed dial, numbered at the edges like a roulette wheel. Insertion of a nickel enabled the player to spin the dial by means of the handle at the front of the machine. If certain numbers on the dial stopped opposite a pointer the player was entitled to a house-paid award ranging in value from two to ten cigars.

Two years later, a brief business associate of Charles Fey, named Gustav F. W. Schultze, improved this type of machine still further by incorporating an automatic payout of his own design which was capable of paying out either two coins or a token of higher value depending upon the position of the dial. Within a year the firm of D. N. Schall of Chicago began production of counter Pin Wheel machines based upon the Schultze design, very soon becoming the largest manufacturers of this type of machine in the United States. From this time on the payout mechanism became increasingly sophisticated so that by the turn of the century de-luxe floor machines were being made by a number of manufacturers which in some instances were capable of holding up to 2,000 trade checks, or paying out automatically, on a dollar play machine, as much as \$40 in cash.

Payout system

The development of a reliable fully automatic payout system was of importance in that it greatly enhanced a machine's play appeal and consequently its profitability. Although an automatic payout system was never used on the five-reelers, it was, however, rapidly incorporated into a new type of reel play machine which came into existence at this time, the one-reeler. This type of machine as its name suggests consisted of a single vertically disposed reel. In June 1897, William Wrigley, Jnr. and Company of Chicago—of chewing gum fame—were granted the first United States patent for a one reel machine. Like the earlier 'card' machines it had no automatic payout, but unlike them, it was essentially based upon the Pin Wheel machines, in that the reel was subdivided into numbered spaces. House paid awards were given by the location owner depending upon which number came to rest opposite the pointer. It was marketed as the Try

Your Luck, and was made by the company in order to stimulate sales. As a consequence it was given away free to shopkeepers and merchants who had purchased a specified quantity of gum. Operation of the machine by the player entitled him to a minimum of 1c worth of gum for his 1c stake, however if he was lucky, and the right number came up, he became entitled to an extra amount free.

Major innovation

By 1904 the one reeler was being made specifically as a gambling machine, incorporating innovations applied at an earlier date on the Pin Wheel machines. In that year the firm of Paupa and Hochriem, of Chicago, were granted a patent for the Elk, which because of its ready success was soon being copied by other American manufacturers. Instead of the numbers on the Try Your Luck, the reel of the Elk was bedecked with symbols such as stars and horseshoes, as well as card oriented ones derived from the five-reelers. The major innovative feature of the machine was its use of automatic payout. It was also made with five separate coin slots, each slot relating to a different symbol, so that a player could effectively bet upon whichever symbol he thought would appear on the payline. The use of a multiple coin slot was a major innovation which had been in use upon the Pin Wheel machines since 1896. Multiple coin slots proved to be so popular that the single coin slot on this type of machine became virtually extinct. Although the multiple coin slot was initially introduced in a bid to enable more than one player to use a machine at the same time, thus increasing revenue, it soon became clear that its popularity lay not in this, but because it seemed to give the player a better chance of winning, in that he could now choose which symbols he bet on, and as a consequence was encouraged to increase his stake by betting on more than one symbol at a time.

In the same year that Paupa and Hochriem patented the Elk, the Puritan Machine Company Ltd. of Detroit, Michigan, began manufacturing the Puritan. The distinguishing feature of this successful machine was its use of three reels, which predates the Fey machine by a full year. In a developmental sense both the Puritan and the Fey machines were following a precedent set as early as 1897 by the Cowper Manufacturing Company of Chicago, Illinois, of a tripartite system, with

the introduction of their pointer wheel machine named the Cuban Machine, which consisted of three separately revolving arrows on a dial. If all three arrows stopped on the same colour the machine would pay out. In this sense one can find examples which predate even this. However, the connection becomes increasingly tenuous, and one would be better placed to consider the design and styling of the Puritan machine in order to propose an alternative reason for the use of three reels.

The machine looks at first sight remarkably like a cash register, in which case one might be forgiven for mistaking the numbered reels as a sales tally in dollars and cents rather than as a three figure gambling combination. One is, in fact, witnessing an early example of gambling machine deception, whereby the spectator, and especially any antagonistic legal authorities, can be fooled into seeing it as a legitimate trading device rather than an illegal gambling machine.

Trade stimulator

Despite its disguise the Puritan is historically classified as a ‘trade stimulator’, in that it incorporated no automatic payout. Its main innovative feature, apart from its use of three reels, was its use of a mechanical system whereby every fifth or seventh coin played into the machine was channelled into a separate compartment for use either as a housepaid jackpot or as the operator’s percentage.

As with all successful machines it was soon being widely copied and marketed by other rival manufacturers.

Having now briefly examined the key developments in America prior to the introduction of the three-reel automatic payout ‘slot’ machine in 1905 by Charles Fey, one can now safely introduce it in some detail without fear of giving a false impression of it. The machine consisted of a rather drab cast iron cabinet resting upon claw feet. It was operated by the insertion of a nickel into a single slot which enabled the handle at the side of the machine to be pulled down by the player causing the three, ten stop, symbol bedecked reels to spin. A perforated plate inside the machine spun with each reel. The reels would then stop in a consecutive timed sequence, and if a winning combination was made the perforations would line up so that metal fingers would project through them so as to trip the coin slide for a cash payout in nickels.

Despite the fact that the machine had an automatic payout the reward chart on the front of the machine listed drinks as the prizes. This was a fairly standard ploy, adopted in order to deceive the authorities in areas where gambling was illegal into thinking that the machine was no more than a trade stimulator, in that it seemingly gave awards for merchandise rather than cash, and was therefore legal. Another ploy that Fey reputedly adopted was the use of a tax stamp.

Having used playing card suits as well as horseshoe, bell, and star symbols on the reels, he stuck a 2c tax stamp on each of his machines, there being a Federal revenue tax on a pack of playing cards at the time. This in effect allowed the operator to further confuse the issue and enable him to argue that even if the authorities refused to accept the machine as a trade stimulator that, by the addition of the tax stamp, the machine was in conformity with the law, being as much a game of chance as a game of cards. By this time such artifices had become increasingly common, and in retrospect it is evident the automatic gambling machine has spent over half its production life posing as something else. Within this context even the name of a machine became significant—witness the Puritan for example—and to this end Fey again followed earlier precedents by giving his machine a patriotic name. He called it the Liberty Bell after one of the greatest symbols of American independence.

Great setback

Fey placed the first of these hand built machines in a San Francisco saloon. It proved to be very popular. As a consequence production at his small workshop in Market Street was geared up to making as many of these machines as would satisfy the demand from his operator routes along the Barbary Coast. However, within a year the enterprise was to suffer a great setback. On the morning of the 18th of April, 1906, the city of San Francisco was virtually destroyed by a major earthquake followed by raging fires. Recording the event in a somewhat romantic mood, many years after the event, his grandson Marshall A. Fey wrote:

“Within four blocks of Fey’s shop five major uncontrollable fires broke out. Later in the day all hope of saving the area of Market Street was abandoned. Charles Fey hastened to a nearby

livery stable for his horse and buggy. Then he quickly returned to his doomed shop to salvage what he could. Fortunately he did save his most prized possession, the original Liberty Bell machine and a few lesser valuables.

"After the fire Fey returned to find that the handsome edifice that housed his shop was in a complete state of ruin. The interior of the building had been completely gutted by fire. All that he was able to salvage was a mass of molten nickels found in the cash can of a slot buried in a pile of rubble on the ground floor. He mounted the souvenir of melted nickels on a casting that he was to treasure the rest of his life as a memento of the 1906 holocaust".

Severe blow

Doubtless the destruction of his workshop must have been a severe blow, forcing him to spend what capital and energy he had left upon building and equipping a new workshop in Jesse Street, rather than on expanding the company's production or marketing capacity. However it is debatable as to whether, had the earthquake not happened, he would have had the ability or the foresight to undertake the marketing of the machine on a national scale, for, it must be remembered, it was never operated beyond the San Francisco area.

Its manufacture was never subcontracted, neither was a partnership formed in order to provide capital to exploit the machines' potential. The machine itself was manufactured for only one or two years, and a recent estimate of the number of Liberty Bell machines ever produced concluded a total output of some 50 or 60 machines—hardly enough to shake the world.

As important a symbol as Fey has become to the history of automatic machines, both in terms of his innovative skill, and his longevity within the manufacturing field, his greatest achievement appears in retrospect to have been the persistent nature of the divergent and often misleading stories which have clung to his name.

At this point in the story there exists two contradictory versions of events. One little known version emanates from the Mills family. It states that because of his financial difficulties following the 1906 earthquake, Fey took his machine to the Mills Novelty Company in Chicago, and offered them the manufacturing rights to the Liberty Bell

in exchange for the first 50 such machines that the company produced. The offer was accepted and the Mills company set to work in producing a more sophisticated version of the Fey machine.

However, no contemporary written evidence has been found so far to support this story. Reservations for its ready acceptance rest on two factors. Firstly, Fey received no credit for his machine in the subsequent Mills advertising literature unlike, for example, M. A. Larkin, who in 1908 had struck a deal with the company relating to the production of a dice machine of his own design, the On The Level, whereby he was used not only for testimonials, but was also given the Californian distributorship. Secondly, since Fey's machine was unpatented, Mills would, in fact, have had no need to get permission from Fey in order to manufacture a copy of it.

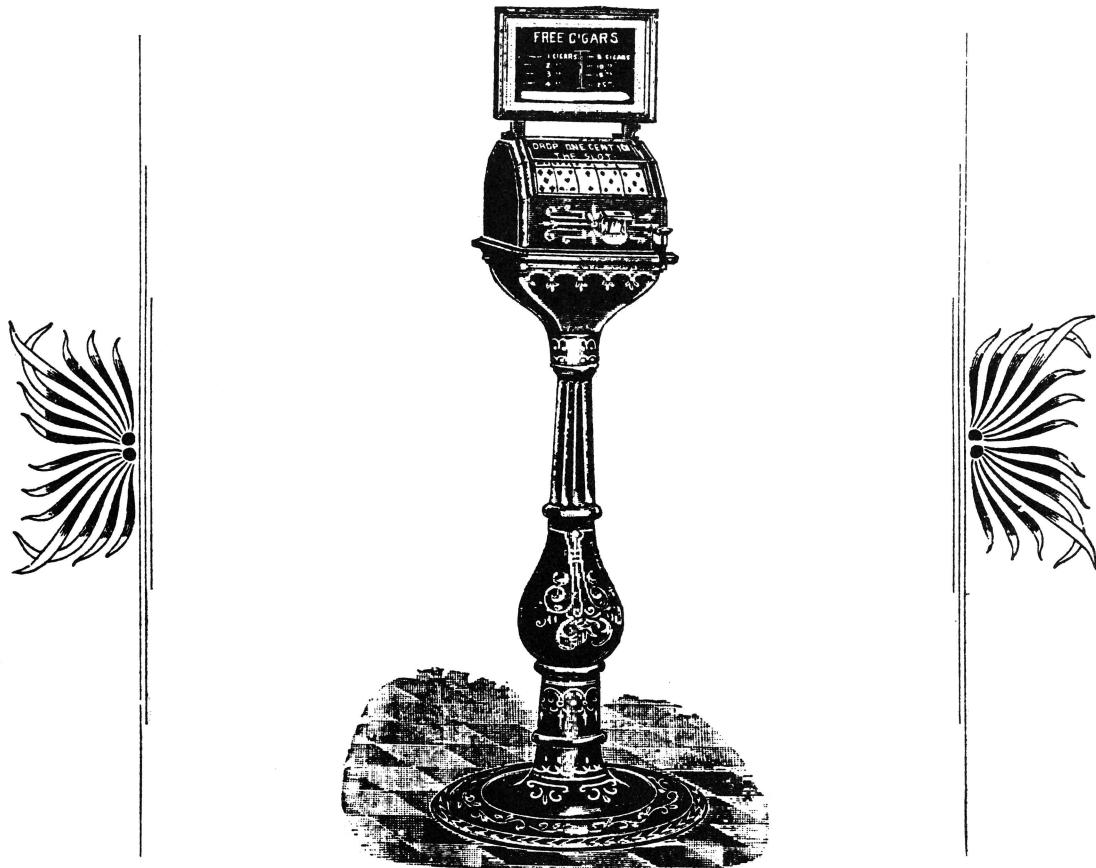
The second, though somewhat mellowed version, emanates from the Fey family. Its gist, as is to be expected, is favourable to Fey, yet its real occurrence is to my mind of equal probability to the Mills version. It runs as follows: Even though Fey was scarcely able to cope with the demand for the machine he refused all offers for the manufacturing and distribution rights. As a consequence the machine was never used beyond the State of California. He feared that the machine would be copied, a common enough practice at the time, but he could not patent it because it was not for 'the public good' (although in practice there were ways around this as exemplified by the 1911 Mills patent for the Liberty Bell as a gum vending device).

Fey neither sold nor leased his machines, but instead chose only to operate them locally on a percentage basis. This, he believed, would stop competitors from acquiring a machine and thereby copying it. It was a futile attempt, as Fey must have realised when, according to the story, he discovered that one of his machines had disappeared from a local saloon.

During this period all of the three increasingly important manufacturing companies of Mills, Caille and Watling maintained branch offices in San Francisco. The parent companies must have soon been made aware of the success that Fey's Liberty Bell was having. It must have been to his great dismay, therefore, to hear that the Mills Novelty Company of Chicago, in January 1909, were announcing the manufacture of a brand new machine, known as the Mills Liberty Bell!

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